

**Collation of Constituent Responses on
 IASB Exposure Draft ED/2009/5 *Fair Value Measurement***

Table of respondents:

Submission	Respondent	Constituent Group
1	Valuer-General Victoria (VGV)	Victorian State Government's independent valuation provider
2	Long-Life Asset Centre	Consultants: valuations and other
3	Grant Thornton	Auditors and business advisers
4	Urbis	Consultants: valuations and other
5	Baycorp (Aust) Pty Ltd	Receivables management
6	NSW Treasury	Preparer and user: public sector
7	HoTARAC	Preparer and user group: public sector
8	Royal Institution of Chartered Surveyors (RICS)	Professional valuation body
9	Halligan & Co	Specialist business valuation and forensic accounting practice
10	Property Council of Australia	Industry body for commercial property investors
11	CPA Australia, ICAA and NIA	Professional accounting bodies

Collation of Written Submissions¹

Note: Issues raised by respondents that were considered by the AASB at its July 2009 meeting, or are covered by the AASB’s reasons for its tentative decisions at that meeting, are shaded.

Commenter	Agree/ Disagree	Issues	Staff comments
<p>IASB ED Question 1</p> <p>The exposure draft proposes defining fair value as ‘the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date’ (an exit price) (see paragraph 1 of the draft IFRS and paragraphs BC15–BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs.</p> <p>Is this definition appropriate? Why or why not? If not, what would be a better definition and why?</p>			
1. VGV	DA	<ul style="list-style-type: none"> • The notion of exit price could lead valuation practitioners to apply the wrong meaning to the definition • Prefer using the Australian and internationally accepted definition of market value (the valuers’ definition of market value) as follows: “Market value is the estimated amount for which a property should <u>exchange</u> on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion” [emphasis added] 	No comment included in draft AASB submission. The AASB considered the appropriateness of the ‘exit price’ definition in tentatively supporting the proposals in the IASB’s ED.
3. Grant Thornton	A	<p>Compared with the existing definition, the proposed FV definition clarifies that:</p> <ul style="list-style-type: none"> • Fair value is exit value based on sale of an asset or transfer of a liability • The hypothetical exit transaction is an orderly transaction • The hypothetical exit transaction takes place at the measurement date 	Consistent with draft AASB submission. No additional comments are suggested.

¹ In this collation, no reference is made in the matrix where the commenter does not comment on a (sub)question.

Commenter	Agree/ Disagree	Issues	Staff comments
4. Urbis	A	<p>However:</p> <ul style="list-style-type: none"> • Elements pertaining to “knowledgeable, willing parties in an arms length transaction” under the existing definition are relevant from a property valuation context • The valuers’ definition of market value also meets all the shortcomings in the existing definition 	<p>No comment included in draft AASB submission.</p> <ul style="list-style-type: none"> • Staff consider that the proposed fair value guidance captures the notion of knowledgeable, willing parties (regarding the meaning of ‘market participants’). • The AASB considered the appropriateness of the ‘exit price’ definition in tentatively supporting the proposals in the IASB’s ED.
6. NSW Treasury	A	<p>However, our main issues are:</p> <ul style="list-style-type: none"> • The application of the definition where there is a lack of market evidence (discussed in responses to Q7, 8 and 10) • ‘In use’ valuation premise and ‘cost approach’ have been associated with current entry rather than current exit prices in the accounting literature • The IASB should acknowledge that it is adopting a different view to the accounting literature (not just ‘some respondents’) regarding current exit and entry price 	<p>No comment included in draft AASB submission, apart from on the second point below.</p> <ul style="list-style-type: none"> • Staff consider that there is sufficient guidance in paragraphs 41 to 54 of the ED and paragraphs B5 to B15 of Appendix B that assist in determining the fair value of assets and liabilities when there is a lack of market evidence. • As tentatively decided by the Board, the draft AASB submission requests clarification regarding the appropriateness of the use of depreciated replacement cost when fair value is defined as an exit price.
7. HoTARAC	DA	<ul style="list-style-type: none"> • There are a number of instances where an entry price, or another measurement basis, might be more appropriate to users (e.g. illiquid markets where exit prices are not readily available, such as specialised assets; assets held in locations remote to the principal market; and assets and liabilities the entity does not intend to, or cannot, dispose of) • Relevance, reliability and faithful representation will be compromised by the application of the exit price definition in the absence of an active and effective market 	<p>No comment included in draft AASB submission, apart from on the first point below.</p> <ul style="list-style-type: none"> • Staff notes the IASB justification in paragraph BC30 that a current replacement cost plays an important role in determining the fair value of certain assets and note that the draft AASB submission requests clarification regarding the appropriateness of the use of depreciated replacement cost when fair value is defined as an exit price. • Staff consider that there is sufficient guidance in paragraphs 41 to 54 of the ED and paragraphs B5 to B15 of Appendix B that assist in determining the fair value of assets and liabilities when there is a lack of market evidence and do not consider that this will

Commenter	Agree/ Disagree	Issues	Staff comments
		<ul style="list-style-type: none"> • The use of the hypothetical market notion is likely to mislead users • The discussion of replacement cost seems to describe a current entry price and this seems inconsistent with an exit price notion • The definition needs to remain more generic, and reflect the purposes for which fair values are used by financial statement users, rather than being focused on exit price 	<p>reduce relevance, reliability or faithful representation of amounts.</p> <ul style="list-style-type: none"> • Staff support the IASB justification in paragraphs BC36 that a hypothetical transaction takes place in determining the fair value of assets and liabilities • Staff support the IASB justification in paragraph BC41 that a market need not be observable to exist (i.e. there may not be organised exchanges) and that the entity should assess the characteristics of market participants who would enter into a transaction for the asset or liability. • The AASB considered the appropriateness of the ‘exit price’ definition in tentatively supporting the proposals in the IASB’s ED.
8. RICS	DA	<ul style="list-style-type: none"> • Prefer the valuers’ definition of market value 	<p>No comment included in draft AASB submission. The AASB considered the appropriateness of the ‘exit price’ definition in tentatively supporting the proposals in the IASB’s ED.</p>
9. Halligan & Co	DA	<ul style="list-style-type: none"> • <u>The definition assumes, incorrectly, that it is possible to transfer a liability</u> • Both the seller and buyer should be hypothetical – it is unclear whether the seller is assumed to be hypothetical or to be the reporting entity • <u>Exit and entry prices are the same – existing wording is preferable</u> • Proposed definition: “Fair value is the amount for which an asset could be exchanged or a liability settled in an orderly transaction between market participants at the measurement date” 	<p>No comment included in draft AASB submission.</p> <ul style="list-style-type: none"> • The Board considered the issue in tentatively deciding to support the proposals in the IASB’s ED. • Staff believe that it is clear that the seller is assumed to be hypothetical. Paragraph BC23 articulates that an exit price notion of fair value embodies expectations about future cash flows associated with the asset or liability from the perspective of the market participant. The reporting entity is assumed to be a market participant. • The Board considered the appropriateness of an exit price definition in tentatively deciding to support the proposals in the IASB’s ED and therefore staff do not support the constituent’s proposed definition.

Commenter	Agree/ Disagree	Issues	Staff comments
11. Joint Accounting Bodies	A	<p>However:</p> <ul style="list-style-type: none"> • It is not appropriate to consider that all liabilities can be transferred as it is often not legally permissible. A settlement notion would be more appropriate • There may be practical implications of using fair value as an exit price – e.g. the use of depreciated replacement cost and whether the discussion in paragraph 38(c) regarding current replacement cost is the same as depreciated replacement cost 	<p>No comment included in draft AASB submission, apart from on the second point below.</p> <ul style="list-style-type: none"> • The Board considered the issue in tentatively deciding to support the proposals in the IASB’s ED. • The draft AASB submission requests clarification regarding the appropriateness of the use of depreciated replacement cost when fair value is defined as an exit price.
<p>IASB ED Question 2</p> <p>In three contexts, IFRSs use the term ‘fair value’ in a way that does not reflect the Board’s intended measurement objective in those contexts:</p> <p>(a) In two of those contexts, the exposure draft proposes to replace the term ‘fair value’ (the measurement of share-based payment transactions in IFRS 2 <i>Share-based Payment</i> and reacquired rights in IFRS 3 <i>Business Combinations</i>) (see paragraph BC29 of the Basis for Conclusions).</p> <p>(b) The third context is the requirement in paragraph 49 of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (see paragraph 2 of the draft IFRS and paragraph BC29 of the Basis for Conclusions). The exposure draft proposes not to replace that use of the term ‘fair value’, but instead proposes to exclude that requirement from the scope of the IFRS.</p> <p>Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?</p>			
1. VGV	A	The use of the term ‘fair value’ is OK as long it refers to measurement of the market value in exchange – that is a willing seller to a willing buyer, at a point in time, not so anxious to sell or buy that they overlook any normal considerations and all parties are aware of the current and potential uses of the property.	No comment to be included in the draft AASB submission – the exit price definition in the ED is consistent with the notions of willing buyer and willing seller (i.e. they are not compelled to enter the transaction), at a particular point in time and the parties to the transaction are knowledgeable.
3. Grant Thornton	A		
6. NSW Treasury	(a): A (b): DA	Paragraph (b) retains the use of the term ‘fair value’, but excludes it from the scope of the proposed standard on Fair Value Measurement, without adequate explanation.	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB’s ED – and request clarification of the impact that the first phase of the IASB’s project to replace IAS 39 will have on the requirement regarding liabilities with demand features.

Commenter	Agree/ Disagree	Issues	Staff comments
7. HoTARAC	(a): A (b): DA	Regarding paragraph (b): the requirements in IAS 39 should be amended so that it does not refer to fair value.	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB's ED – and request clarification of the impact that the first phase of the IASB's project to replace IAS 39 will have on the requirement regarding liabilities with demand features.
11. Joint Accounting Bodies	A		
<p>IASB ED Question 3</p> <p>The exposure draft proposes that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access (see paragraphs 8–12 of the draft IFRS and paragraphs BC37–BC41 of the Basis for Conclusions). Is this approach appropriate? Why or why not?</p>			
1. VGV	DA	An advantageous market could be regarded by some as meaning that a higher price could be paid for the asset or that there are more opportunities to sell the asset.	No comment included in draft AASB submission. Staff do not read the guidance on 'most advantageous market' in that way. The Board tentatively decided to support the proposals in the IASB's ED.
3. Grant Thornton	A	<p>However, the concept of 'most advantageous market' needs further development in areas where:</p> <ul style="list-style-type: none"> • no real market exists for assets and liabilities • the relevant market is a market for an asset group or business rather than a market in the individual asset in concern • the most advantageous market is in fact a hypothetical market 	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB's ED – the most advantageous market is the market in which the reporting entity is most likely to transact for the asset, group of assets or business and will generally be its principal market.
6. NSW Treasury	A	<p>However:</p> <ul style="list-style-type: none"> • Need more guidance where there is no market • The subjectivity of hypothetical markets raises serious issues of relevance and reliability (see also response to Q10) 	<p>No comment to be included in the draft AASB submission.</p> <ul style="list-style-type: none"> • Staff consider that the guidance at paragraphs B5 to B15 to be sufficient to assist in determining fair value in markets that are no longer active • The Board considered the issue in tentatively deciding to support the proposals in the IASB's ED.

Commenter	Agree/ Disagree	Issues	Staff comments
7. HoTARAC	A	However, the IASB needs to consider the concept of ‘most advantageous market’ and whether it applies to liabilities, especially non-financial liabilities that are not dealt with in markets (eg employee benefits and provisions).	No comment to be included in the draft AASB submission. The Board considered the issue in tentatively deciding to support the proposals in the IASB’s ED.
8. RICS	DA	<ul style="list-style-type: none"> • ‘Most advantageous market’ may involve delay or an element of special relationship between the parties. • Prefer ‘most likely market’. 	No comment to be included in the draft AASB submission. Staff consider that there would not be delay in determining the most advantageous market because the ED clarifies that unless there is evidence to the contrary, the entity’s principal market will be its most advantageous market and that there is no requirement to undertake an exhaustive search in determining the most advantageous market. Staff do not believe that there would be an element of ‘special relationship’ in the entity’s most advantageous market (as it is likely to be its principal market) and therefore, do not support the suggestion that it should be labelled ‘most likely market’.
9. Halligan & Co	DA	Concepts of ‘most advantageous market’ and ‘principal market’ are unnecessary because the value of any asset will be the highest value that can be obtained – speculators and arbitrageurs will ensure this is the case.	No comment to be included in the draft AASB submission. The Board considered the issue in tentatively deciding to support the proposals in the IASB’s ED. Staff consider that the suggestion that speculators and arbitrageurs will ensure that the highest value for an asset will be obtained is supportive of the use of the ‘most advantageous market’ because this is the market that the entity is most likely to enter in order to ensure maximum profit is achieved on the transaction.
11. Joint Accounting Bodies	A	Agrees with paragraph BC40 that entities aim to maximise profits and so would look to the most advantageous market. However, the guidance in paragraphs 9-11 is unclear.	No comment to be included in the draft AASB submission. Staff do not find paragraphs 9 to 11 to be unclear. Staff consider the IASB’s intention in the wording is that an entity’s principal market is likely to be the most advantageous market and exhaustive searches need not be undertaken in identifying the most advantageous market.

Commenter	Agree/ Disagree	Issues	Staff comments
<p>IASB ED Question 4 The exposure draft proposes that an entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability (see paragraphs 13 and 14 of the draft IFRS and paragraphs BC42–BC45 of the Basis for Conclusions). Is the description of market participants adequately described in the context of the definition? Why or why not?</p>			
1. VGV	A	However, market participants should reflect the views of both buyer and seller, not just seller.	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB’s ED – use of market participant assumptions is consistent with the exit price notion which assumes a fair value from the perspective of a market participant that holds the asset or liability – therefore, the market participant is the seller.
3. Grant Thornton	A	Subject to points raised in responses to Question 3.	(Refer to comments in respect of items in Question 3.)
6. NSW Treasury	A	<p>However:</p> <ul style="list-style-type: none"> • Need more guidance regarding how to ascertain hypothetical market participants where there is no market (see also response to Question 10) • In certain circumstances (e.g. in public sector), an entity may transact with a ‘related party’, but the transaction may be at ‘arm’s length’ 	<p>No comment to be included in the draft AASB submission.</p> <ul style="list-style-type: none"> • Staff consider that the guidance is clear in requiring consideration of the characteristics of someone that would possibly be in the market place and wanting to buy the asset or take on the obligation – for example, a similar entity to the reporting entity. • Staff agree that a transaction with a related party could be at arm’s length. The guidance in the ED suggests that consideration should be given in these circumstances as to whether the transaction price reflects fair value. In such a case, the transaction price would be at fair value.
7.HoTARAC	A	<p>However:</p> <ul style="list-style-type: none"> • There may be practical issues (e.g. reliability, time and cost) in developing market participant assumptions referred to in paragraph 14. • Identification of market participants, where there is either no possibility of a market or market participants are not required to value the asset or liability (eg individual employee participants in 	<p>No comment to be included in the draft AASB submission.</p> <p>Staff consider that the difficulties of developing market participant assumptions would be no more difficult than under current requirements to develop inputs for use in a valuation technique when required to measure fair value.</p>

Commenter	Agree/ Disagree	Issues	Staff comments
		a post-employment health plan), is a practical concern.	
9. Halligan & Co	DA	The definition of market participants should make explicit that they are both hypothetical (see response to Question 1).	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB's ED – staff believe that the fact that market participants are hypothetical is implicit in the hypothetical transaction notion.
11. Joint Accounting Bodies	A	However, we do not agree with the second footnote to paragraph 13 and prefer the wording of SFAS 157 in relation to market participants being independent of the reporting entity because it makes it clear that the fair value measurement is market-based and not entity-specific.	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB's ED – the AASB has tentatively agreed that the reporting entity should be considered as a market participant.
<p>IASB ED Question 5</p> <p>The exposure draft proposes that:</p> <p>(a) the fair value of an asset should consider a market participant's ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use (see paragraphs 17–19 of the draft IFRS and paragraph BC60 of the Basis for Conclusions).</p> <p>(b) the highest and best use of an asset establishes the valuation premise, which may be either 'in use' or 'in exchange' (see paragraphs 22 and 23 of the draft IFRS and paragraphs BC56 and BC57 of the Basis for Conclusions).</p> <p>(c) the notions of highest and best use and valuation premise are not used for financial assets and are not relevant for liabilities (see paragraph 24 of the draft IFRS and paragraphs BC51 and BC52 of the Basis for Conclusions).</p> <p>Are these proposals appropriate? Why or why not?</p>			
1. VGV	(a): DA (b): DA	(a) In adopting 'highest and best use', all factors (e.g. discounts to allow for differences between sales evidence and the current use, requirements for continued use of public sector specialised assets to fulfil community service obligations) need to be taken into account.	No comment to be included in the draft AASB submission. (a) Staff consider that this issue is addressed in paragraph 17 of the ED. For example, the highest and best use of a public school could not be a block of flats because it would not be legally permissible by the government. Therefore, the highest and best use will be its existing use as a school.

Commenter	Agree/ Disagree	Issues	Staff comments
		(b) highest and best use is inappropriate if it differs from the current use for assets to which the 'in use' premise applies.	(b) Staff consider that there may be some confusion with the unit of account terminology because 'in-use' means different things to different professions. However, staff consider the ED to be clear in that the 'in-use' premise dictates the unit of account and does not refer to the asset's <i>existing use</i> . Therefore it is appropriate to consider whether the asset's highest and best use is on a standalone basis (in-exchange') or together with other assets ('in-use').
3. Grant Thornton	(a): A (b): DA (c): A	<p>(a) The ED overemphasises the highest and best use notion in view of the requirement to consider the most advantageous market, and the more detailed material on applying this requirement should be relegated to Application Guidance.</p> <p>(b) The term 'valuation premise' introduces unnecessary confusion. Issues to be addressed include:</p> <ul style="list-style-type: none"> • What the unit of valuation is • The practicality of a requirement to consider alternative combinations of assets and liabilities to determine highest and best use • Whether the fair value model is appropriate for non-financial assets. 	<p>No comment to be included in the draft AASB submission.</p> <p>(a) Staff consider that the level of information in the ED is appropriate.</p> <p>(b) The Board considered this issue in tentatively deciding to support the proposals in the IASB's ED.</p>
4. Urbis	A	However, require greater clarity between 'in use' and 'in exchange' definitions and further guidance to the appropriate valuation methodologies in assessing values under these definitions.	No comment to be included in the draft AASB submission. Staff consider the ED to be clear in that the 'in-use' premise dictates the unit of account of the asset (that is, that its highest and best use is together with other assets) and does not refer to the assets <i>existing use</i> and the in-exchange premise meaning 'on a standalone basis'. Therefore, valuation methodologies shall be applied by considering the value of the asset 'together with other assets' or 'on a standalone basis'. The Board has tentatively agreed to support the proposals in the IASB's ED.

Commenter	Agree/ Disagree	Issues	Staff comments
6. NSW Treasury	A	<p>However:</p> <ul style="list-style-type: none"> • Highest and best use concept needs to take account of the socio-political environment in which the entity operates, in addition to physical, financial and legal feasibility • Concept of feasible use should clarify that it is a use that is not remote • It is unclear how an entity incorporates the relative efficiencies of hypothetical market participants into the highest and best use valuation and the meaning of the resulting valuation • For liabilities, the ED should acknowledge the equivalent concept of highest and best use is the concept of lowest available market price 	<p>No comment to be included in the draft AASB submission.</p> <ul style="list-style-type: none"> • Staff consider that this socio-political environment is addressed by ‘legally permissible’ in paragraph 17(b) of the ED. For example, the highest and best use of a public school could not be a block of flats because it would not be legally permissible by the government. Therefore, the highest and best use will be its existing use as a school. • Staff do not believe that it is necessary to clarify that the concept of feasible means that the highest and best use is not remote. Staff consider the guidance at paragraph 17 to be sufficient. • The ED is clear in that determining inputs required for use in a valuation technique to determine fair value. Adjustments to market participant assumptions should be made where the information is <i>reasonably available</i>. • Consistent with the AASB submission. No further comments included.
7. HoTARAC	A ²	<p>(a) There is subjectivity surrounding how the highest and best use would be identified for alternative buyers</p> <p>(b) Minority view:</p> <ul style="list-style-type: none"> • The terms ‘in use’ and ‘in exchange’ do not clearly distinguish between two ways in which highest and best use may be determined • Current exit value definition of fair value is inconsistent with ‘in use’ and ‘cost approach’ 	<p>No comment to be included in the draft AASB submission.</p> <p>(a) staff agree that there may be subjectivity, but the value determined for each use will clarify which use provides the highest value.</p> <p>(b) Staff consider the ED to be clear in that the ‘in-use’ premise dictates the unit of account and does not refer to the asset’s <i>existing use</i>. Therefore it is appropriate to consider whether the asset’s highest and best use is on a standalone basis (‘in-exchange’) or together with other assets (‘in-use’). Also, since</p>

² Subject to overall concerns regarding highest and best use (see specific issues raised in HoTARAC submission).

Commenter	Agree/ Disagree	Issues	Staff comments
			<p>‘in-use’ means ‘together with other assets’ and is not a reference to the asset’s existing use, staff do not consider this to be inconsistent with a current exit value definition.</p> <p>In respect of the inconsistency between the cost approach and a current exit value definition, a comment has been included in the draft AASB submission requesting clarification regarding the appropriateness of the use of depreciated replacement cost when fair value is defined as an exit price.</p>
9. Halligan & Co	A		
11. Joint Accounting Bodies	(a): A (b): A (c): DA	(c) A similar analogy to the highest and best use notion can be applied to liabilities – an entity would seek to maximise gains from a liability, such as payment of a penalty to extinguish the obligation rather than settling the obligation.	Consistent with draft AASB submission. No additional comments to be included.
<p>IASB ED Question 6</p> <p>When an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset, the exposure draft proposes that the entity should separate the fair value of the asset group into two components: (a) the value of the assets assuming their current use and (b) the amount by which that value differs from the fair value of the assets (ie their incremental value). The entity should recognise the incremental value together with the asset to which it relates (see paragraphs 20 and 21 of the draft IFRS and paragraphs BC54 and BC55 of the Basis for Conclusions).</p> <p>Is the proposed guidance sufficient and appropriate? If not, why?</p>			
1. VGV	DA	Guidance assists in a limited way in terms of public sector type assets (e.g. government property used at a school).	No comment included in draft AASB submission. Arguably, an alternative use of land reserved for a school purpose would not be legally permissible per paragraph 17(b) of the ED. Therefore, the property’s highest and best use would be as a school. However, at a whole-of-government level, some restrictions may be viewed as ‘self-imposed’ and therefore to be disregarded when measuring fair value. Staff think this is a public-sector-specific issue that should not be raised with the IASB.

Commenter	Agree/Disagree	Issues	Staff comments
3. Grant Thornton	A & DA	Agree with paragraphs 17-19. Disagree with paragraphs 20-21 – see response to Question 13.	Consistent with draft AASB submission. No additional comments are suggested.
4. Urbis	A	Guidance should be sufficiently worded to avoid double counting the value of some elements within the asset such that the total reported value is higher than the alternative highest and best use value (e.g. the valuation of highly specialised properties).	Consistent with draft AASB submission (see last paragraph of response to this question).
6. NSW Treasury	DA	The proposal to disclose two bases, existing use and alternative highest and best use, is confusing and costly.	Consistent with draft AASB submission. No additional comments are suggested.
7. HoTARAC	A	Minority view: <ul style="list-style-type: none"> Clarify how the approach to valuing assets on a group basis interacts with the separate impairment requirements in IAS 36 Clarify how the group approach to valuing complex assets interacts with separate requirements to disaggregate an asset for depreciation purposes 	No comment included in draft AASB submission. On the first point raised, staff thinks the interaction with IAS 36 is not a matter for the Fair Value Measurements (FVM) Standard. It should be noted that US GAAP requirements for impairment differ from those of IAS 36; therefore, a converged Standard on FVM could not accommodate this issue. On the second point, the likely widespread use of a cost approach for complex/specialised assets should be readily compatible with disaggregating assets for depreciation purposes.
9. Halligan & Co	DA	Clarify that the incremental value is not required to be recognised or disclosed separately from the value assuming current use.	In respect of separate disclosure, this comment is consistent with the draft AASB submission. No additional comments are suggested.
11. Joint Accounting Bodies	DA	Splitting the highest and best use between existing use and disclosing an incremental amount to reach the alternative highest and best use will be confusing and increase compliance costs.	Consistent with draft AASB submission. No additional comments are suggested.

Commenter	Agree/ Disagree	Issues	Staff comments
<p>IASB ED Question 7</p> <p>The exposure draft proposes that:</p> <p>(a) a fair value measurement assumes that the liability is transferred to a market participant at the measurement date (see paragraph 25 of the draft IFRS and paragraphs BC67 and BC68 of the Basis for Conclusions).</p> <p>(b) if there is an active market for transactions between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer’s liability. An entity adjusts the observed price for the asset for features that are present in the asset but not present in the liability or vice versa (see paragraph 27 of the draft IFRS and paragraph BC72 of the Basis for Conclusions).</p> <p>(c) if there is no corresponding asset for a liability (eg for a decommissioning liability assumed in a business combination), an entity estimates the price that market participants would demand to assume the liability using present value techniques or other valuation techniques. One of the main inputs to those techniques is an estimate of the cash flows that the entity would incur in fulfilling the obligation, adjusted for any differences between those cash flows and the cash flows that other market participants would incur (see paragraph 28 of the draft IFRS).</p> <p>Are these proposals appropriate? Why or why not? Are you aware of any circumstances in which the fair value of a liability held by one party is not represented by the fair value of the financial instrument held as an asset by another party?</p>			
3. Grant Thornton	A		
6. NSW Treasury	DA	<ul style="list-style-type: none"> • Where there are no market participants, it may not be possible to determine reliably the risk or profit margin for hypothetical market participants • The highest and best use of a liability (ie lowest cost) may be to settle the liability rather than to transfer it • Market participants in the asset and liability market are likely to be different and to hold different views from one another 	<p>No comment included in draft AASB submission. The staff considers that these concerns are more concerned with whether to use fair value than how to determine fair value. The Board previously considered the appropriateness of settlement value and tentatively decided it is a different concept from fair value. On the third point raised, staff agrees that counterparties to a contractual promise may have different expectations about the settlement of the promise, including its likelihood, but considers that this does not cause the fair value of the promise to differ as an asset for one party and a liability for the other.</p>
7. HoTARAC	DA	<p>(a) Prefer the term ‘settlement’ as transfer price implicitly includes an allowance for assuming an entity’s risk, future administered costs and other associated costs</p> <p>(b) Approach is not practicable and feasible</p> <p>(c) Approach is appropriate in only a limited number of circumstances, because the reporting entity often would not</p>	<p>No comment included in draft AASB submission. The Board considered these issues in tentatively deciding to support the proposals in the IASB’s ED.</p>

Commenter	Agree/ Disagree	Issues	Staff comments
		rationally transfer the liability	
9. Halligan & Co	DA	Not appropriate to assume that all liabilities can be transferred (see response to Question 1).	No comment included in draft AASB submission. The Board tentatively decided to support the hypothetical transfer notion in the IASB's proposals.
11. Joint Accounting Bodies	(a): DA (b): DA (c): A	(a) 'Transfer of liability' wording is not appropriate as it will often not be legally possible to transfer a liability (b) Question the presumption of symmetry between fair value of asset and liability given the holders may have different views about the value of the asset compared with the value of the liability (c) Support the use of valuation techniques	No comment included in draft AASB submission, for the reasons above in respect of submissions 6 and 9.
IASB ED Question 8			
The exposure draft proposes that:			
(a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfil the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions).			
(b) the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability (see paragraph 31 of the draft IFRS and paragraph BC75 of the Basis for Conclusions).			
Are these proposals appropriate? Why or why not?			
3. Grant Thornton	(a): DA (b): A	(a) FV of a liability should focus on the obligation rather than the specific obligor's ability to meet the obligation.	No comment included in draft AASB submission. The Board considered this issue in tentatively deciding to support the proposals in the IASB's ED.
6. NSW Treasury	A	However, do not agree that the settlement notion of a liability is the same as a transfer notion of liability measurement.	No comment included in draft AASB submission. The Board previously tentatively decided that settlement and transfer notions are different, and that the transfer notion in the IASB's ED should be supported.
7. HoTARAC	DA	(a) The inclusion of an entity's own non-performance risk (credit risk) in the valuation of a liability incorrectly values the liability and would not provide decision-useful information (b) 'Legally permissible' factor for assets should also be a factor for a liability. A restriction on an entity's ability to transfer a liability	Regarding issue (a), the Board previously tentatively decided that concerns about own credit risk relate to whether to use fair value, not how to measure fair value. Regarding issue (b), the draft submission reflects the Board's previously decided tentative support for applying

Commenter	Agree/ Disagree	Issues	Staff comments
		does affect the liability's fair value	the hypothetical transfer notion to measure the fair value of a liability. However, it also includes a comment that, in a regulated market for transfers of the liability in question, hypothetical market participants must only be those who are eligible transferees for the liability.
9. Halligan & Co	DA	See the response to Question 1.	No comment to be included in the draft AASB submission.
11. Joint Accounting Bodies	(a): A (b): DA	(a) The inclusion of an entity's own non-performance risk (credit risk) in the valuation of a liability correctly values the liability (b) 'Transfer of liability' wording is not appropriate as it will often not be legally possible to transfer a liability	In respect of issue (b), the Board previously tentatively decided to support the hypothetical transfer notion for measuring the fair value of a liability.
<p>IASB ED Question 9</p> <p>The exposure draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see paragraphs 36 and 37 of the draft IFRS, paragraphs D27 and D32 of Appendix D and paragraphs BC76–BC79 of the Basis for Conclusions).</p> <p>Is this proposal appropriate? In which situation(s) would it not be appropriate and why?</p>			
3. Grant Thornton	A	<p>The second sentence of paragraph 36 contradicts the first sentence of paragraph 36 and paragraph BC77 of the Basis for Conclusions. Therefore, it should be amended to read:</p> <p>“The transaction price is likely to be persuasive evidence of fair value of an asset or liability at initial recognition unless...”</p> <p>In addition, the IASB should clarify its intended meaning in paragraph AG76. As it currently reads, paragraph AG76 would preclude recognition of day 1 gains and losses even if the transaction price does not represent fair value.</p>	<p>No comment to be included in the draft AASB submission.</p> <ul style="list-style-type: none"> • Staff disagree with the points being made – the second sentence requires consideration of whether the transaction price is the best evidence of fair value in the listed circumstances. For example, a transaction could be at arm's length between related parties. If that is the case, then in that situation the transaction price will be the best evidence of fair value. • In respect of paragraph AG76, staff support the IASB in that differences between fair value and transaction price that are determined based on inputs other than observable market transactions should be deferred.

Commenter	Agree/ Disagree	Issues	Staff comments
6. NSW Treasury	A	However, the IASB should consider whether differential treatment of the recognition of day one gains or losses between different types of assets and liabilities is justified.	Consistent with draft AASB submission. No additional comments to be included.
7. HoTARAC	A	However, we have some concerns with paragraph 37. The use of unobservable (level 3) inputs in determining fair value on initial recognition of non-financial assets and liabilities could be subjective and result in manipulation of data used by management. Allowing fair value to differ from the transaction price only when observable inputs are used (per IAS 39) restricts the ability of management to manipulate data.	No comment to be included in the draft AASB submission. The Board considered this issue in tentatively deciding to support the proposals in the IASB's ED.
11. Joint Accounting Bodies	A	However, the use of reference to 'another IFRS' is inappropriate – the accounting for any gain or loss should be dealt with in the resulting Fair Value Measurement standard.	Staff consider that this is an appropriate solution for the short-term. No comment included in the AASB draft submission..
<p>IASB ED Question 10</p> <p>The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see paragraphs 38–55 of the draft IFRS, paragraphs B5–B18 of Appendix B, paragraphs BC80–BC97 of the Basis for Conclusions and paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples).</p> <p>Is this proposed guidance appropriate and sufficient? Why or why not?</p>			
1. VGV	DA	More guidance needed to ensure that valuation practitioners fully understand the concepts.	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB's ED. Staff considers that the valuation methods discussed in the ED are appropriate and consistent with industry practice when another IFRS requires fair value. SFAS 157 and the IASB ED were developed in consultation with the FASB's Valuation Resource Group, which includes an International Valuation Standards Board representative.
2. Long-Life Asset Centre	DA	Under International Valuation Standards, a cost approach has three critical elements: (i) Determination of replacement cost (ii) Calculation of adjustment for various obsolescence factors (iii) Calculation of premium for time, risk and inconvenience	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB's ED. Staff considers that the discussion surrounding depreciated replacement cost is consistent with the current understanding of what

Commenter	Agree/ Disagree	Issues	Staff comments
		<p>factors</p> <p>The discussion of the cost approach in paragraph 38(c) of ED 181 is incomplete because it only mentions the first two of these factors. ED 181 is potentially misleading as it infers that replacement cost is the fair value ceiling. A market participant might be willing to pay more than replacement cost to obtain a specialised asset that takes a long time to construct. The premium over replacement cost avoids the purchaser having to (1) wait for construction of the asset, (2) bear construction risk and (3) bear the inconvenience of managing the asset's construction.</p>	<p>depreciated replacement cost means, eg, depreciated replacement cost does not assume the asset would necessarily be self-constructed.</p>
3. Grant Thornton	A	<p>We believe this is a useful summary of techniques commonly applied in practice.</p>	<p>Consistent with draft AASB submission. No additional comments to be included.</p>
5. Baycorp	No clear view	<p>Determining a fair value measure for purchased debt ledgers (portfolios of distressed debt) by applying the discounted cash flows valuation method is difficult and subjective. Forecasting the future cashflows of the individual debts and making an assessment as to the appropriate discount rate requires cost and effort in providing a measure that Baycorp does not believe to be reliable given that the debts are not traded.</p>	<p>No comment to be included in the draft AASB submission. The Board considered this issue in tentatively deciding to support the proposals in the IASB's ED. Staff considers that the valuation methods discussed in the ED are appropriate and consistent with industry practice when another IFRS requires fair value.</p>
6. NSW Treasury	DA	<ul style="list-style-type: none"> • There is insufficient guidance about how the entity's own inputs can be adjusted to reflect hypothetical market participants • There is no hierarchy of the valuation techniques. Although the fair value hierarchy prioritises the inputs to a valuation, it does not rank or sufficiently explain the relationship with the valuation techniques or valuation premise. For example, the cost approach should generally only be appropriate in the absence of market evidence • The practicality of determining the "point within that range that is 	<p>No comment to be included in the draft AASB submission.</p> <ul style="list-style-type: none"> • Staff consider that paragraph 54 is clear in providing guidance for adjusting an entity's own data – that is, if there is <i>reasonably available</i> information about what market participants would use, the entity should consider it in adjusting its own inputs. • Staff agrees with the IASB conclusion at paragraph BC81 that the use of a valuation technique will differ depending on the circumstances and will require judgement. Therefore, it would be inappropriate to propose a hierarchy. • Where multiple valuations are used to determine fair

Commenter	Agree/ Disagree	Issues	Staff comments
		<p>most representative of fair value”, when using multiple valuation techniques, is disputed</p> <ul style="list-style-type: none"> Insufficient guidance is provided on when it would be appropriate to use multiple valuation techniques 	<p>value, the entity should use judgement in assessing the point within a range that is most representative of fair value – for example, a weighted average of the fair value measures could be calculated.</p> <ul style="list-style-type: none"> Staff consider that the need to use multiple valuation techniques will require judgement depending on the circumstances and guidance should not be provided by the IASB.
7. HoTARAC	DA	<ul style="list-style-type: none"> The hierarchy proposed by the IASB has the potential to place more credibility on observable data from markets that have nothing to do with the asset than that of the asset’s relevant replacement cost, or discounted present value The use of exit values, in some cases, is not considered to be appropriate as market prices could be unreliable, especially in the case when the market is inactive 	No comment to be included in the draft AASB submission. The Board considered the issue in tentatively deciding to support the proposals in the IASB’s ED.
9. Halligan & Co	DA	<ul style="list-style-type: none"> Three valuation approaches described are <i>ad hoc</i>, unrelated and incomplete Suggests removing paragraph 38 and Appendix C (unnecessary and inadequate) 	No comment to be included in the draft AASB submission. Staff considers that the valuation methods discussed in the ED are appropriate and consistent with industry practice when another IFRS requires fair value. This view is reflected in the AASB draft submission which supports the proposals in the IASB’s ED in respect of the valuation technique information.
10. Property Council of Australia	DA	Suggest retaining paragraphs 45-48 of IAS 40 because they contain specific and additional guidance in relation to the determination of fair value for investment properties.	No comment to be included in the draft AASB submission. The Board has tentatively agreed to support the proposals in the IASB’s ED – AASB staff consider the guidance in paragraphs 45 to 48 of IAS 40 to be consistent with the guidance included in the ED.
11. Joint Accounting Bodies	A	However, the IASB should get input from the IVSC on the wording in paragraph 38 as it is causing confusion amongst the valuation profession.	Consistent with draft AASB submission.

Commenter	Agree/ Disagree	Issues	Staff comments
<p>IASB ED Question 11</p> <p>The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56–61 of the draft IFRS and paragraphs BC98–BC106 of the Basis for Conclusions).</p> <p>Are these proposals appropriate? Why or why not?</p>			
1. VGV	A		
3. Grant Thornton	A		
6. NSW Treasury	A	<ul style="list-style-type: none"> • Subject to cost benefit considerations • A greater focus should be placed on how reliability is addressed in terms of recognition 	<p>No comment to be included in the draft AASB submission. Staff consider that disclosures are necessary to provide the user of financial statements with sufficient information to understand how fair value measurements of assets and liabilities are derived, and this is especially the case for Level 3 measurements which focus less on market inputs and more on unobservable inputs or the entity’s own data. The AASB draft submission expresses concerns about the additional cost of preparing the disclosures where an asset’s existing use differs from its highest and best use and disagrees with the extent of disclosures proposed for interim financial reporting purposes. Other than these, the Board has tentatively agreed to support the proposals in the IASB’s ED.</p>
7. HoTARAC	DA	<ul style="list-style-type: none"> • Proposals are inappropriate for non-financial assets and liabilities • Additional disclosure burden on interim financial statements 	<ul style="list-style-type: none"> • The Board considered the first issue in tentatively deciding to support the proposals in the IASB’s ED. • The AASB draft submission disagrees with the extent of disclosures for interim financial reporting purposes.
11. Joint Accounting Bodies	A	<ul style="list-style-type: none"> • Paragraph 57(e) requirements are too detailed and confusing and do not provide useful information • Disclosures in paragraph 60 regarding highest and best use are unnecessary • Disclosure requirements in a Fair Value Measurement standard should not apply to interim financial reports 	<ul style="list-style-type: none"> • The AASB raised in its response to the IASB Discussion Paper on Fair Value Measurement that the disclosure requirements of paragraph 57(e) were onerous and unlikely to produce useful information. However, the IASB has retained the disclosures. This has not been explained in the Basis for

Commenter	Agree/Disagree	Issues	Staff comments
			<p>Conclusions, but staff believe that it is likely to be the case for convergence purposes.</p> <ul style="list-style-type: none"> The other two concerns are consistent with the draft AASB submission.
IASB ED Question 12			
<p>The exposure draft differs from Statement of Financial Accounting Standards No. 157 <i>Fair Value Measurements</i> (SFAS 157) in some respects (see paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157.</p> <p>Do you agree that the approach that the exposure draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?</p>			
3. Grant Thornton	A		
6. NSW Treasury	A	Exception: disclosure of highest and best use, where it differs from the current use (see response to Question 6).	Consistent with draft AASB submission. No additional comments to be included.
7. HoTARAC	A	Concern about the need for the proposed level of disclosure for non-financial assets and liabilities at level 3, which will include most such assets and liabilities if an exit value approach is taken.	No comment to be included in the draft AASB submission. Staff consider that disclosures are necessary to provide users of financial statements with sufficient information to understand how fair value measurements of assets and liabilities are derived, and this is especially the case for Level 3 measurements which focus less on market inputs and more on unobservable inputs or the entity's own data. The AASB raised in its response to the IASB Discussion Paper on Fair Value Measurement that the disclosure requirements of paragraph 57(e) were onerous and unlikely to produce useful information. However, the IASB has retained the disclosures. This has not been explained in the Basis for Conclusions, but staff believe that it is likely to be the case for convergence purposes. The Board has tentatively agreed to support the differences in the IASB ED, but encourages the IASB and FASB to work together to achieve convergence.
10. Property Council of Australia	A	Prefer complete convergence with SFAS 157 by resolving the differences between the Standards (<i>ie, respondent does not say SFAS 157 should not be amended</i>).	Consistent with draft AASB submission. No additional comments to be included.

Commenter	Agree/ Disagree	Issues	Staff comments
11. Joint Accounting Bodies	A	Encourage the IASB and the FASB to work together to achieve convergence.	Consistent with draft AASB submission. No additional comments to be included.
IASB ED Question 13 Do you have any other comments on the proposals in the exposure draft?			
		Comments were made in respect of the following issues (see submissions for details):	
1. VGV	N/A	<ul style="list-style-type: none"> • The subtle change of terms to a ‘sale price’ might confuse some professionals. • Level 2 input in paragraph B3(g) – for buildings held and used, separate sale prices are not observable for the land and the building • Public sector assets are often specialised, non-market assets with few (if any) feasible alternative uses 	No comment included in draft AASB submission.
3. Grant Thornton		<ul style="list-style-type: none"> • Transport costs and transaction costs (paragraph 16) • Illustrative examples (paragraphs IE2-8) • Editorial comments (paragraphs 12, 36, 46 and 47) 	No comment included in draft AASB submission.
6. NSW Treasury		<ul style="list-style-type: none"> • Interrelationship between fair value and IAS 16 and IAS 36 • Unit of account 	No comment included in draft AASB submission.
7. HoTARAC		<ul style="list-style-type: none"> • Valuation technique (paragraph 38) [see Question 1] • Arm’s length vs. orderly transactions (paragraph BC43) [see Question 4] • Overall concerns regarding highest and best use [see Question 5] • Editorial comments (Appendix A) • Divide the Standard into financial and non-financial assets and liabilities 	No comment included in draft AASB submission.
8. RICS		<ul style="list-style-type: none"> • Editorial comments (paragraph B3(g)) 	No comment included in draft AASB submission.
9. Halligan & Co		<ul style="list-style-type: none"> • Premises of value (paragraph 23) • What does ‘fair’ mean? 	No comment included in draft AASB submission.

Commenter	Agree/ Disagree	Issues	Staff comments
11. Joint Accounting Bodies		Paragraphs BC65 and BC66 are confusing and irrelevant and should be removed.	Consistent with draft AASB submission.