ISSUES PAPER
AASB 13 *Fair Value Measurement* Disclosures for Not-for-Profit Entities – Implementation Issues

Purpose

1 The purpose of this staff paper is to update the Board on recently expressed concerns of not-for-profit (NFP) entities relating to disclosures specified by AASB 13 *Fair Value Measurement*.

Background

2 AASB 13 was issued in September 2011, applicable to annual reporting periods beginning on or after 1 January 2013. The Standard defines fair value and sets out a framework for measuring the fair value of both financial and non-financial assets. AASB 13 does not include any NFP entity amendments.

3 In the Australian environment, the revaluation of property, plant and equipment occurs widely for NFP public sector entities. Disclosures to understand the fair value of such property, plant and equipment is required under AASB 13 (in addition to AASB 116 *Property, Plant and Equipment*).

4 The transitional provisions of AASB 13 provide for prospective application by entities, and paragraph C3 of the Standard notes that the disclosure requirements of the Standard need not be applied in comparative information provided for periods before initial application of AASB 13. As NFP public sector entities do not generally apply Accounting Standards in advance of their mandatory application dates, the recent financial year ended 30 June 2014 is the first time that many such entities would have encountered the practical issues in preparing disclosures to comply with AASB 13.

Relevant Requirements of AASB 13

5 The AASB 13 paragraphs specifying the AASB 13 disclosures to be made in general purpose financial reports are included in the Appendix to this paper. The table below provides a snapshot of the disclosures required by AASB 13 with respect to PPE carried at fair value, in comparison with the disclosures specified by AASB 116:

Disclosures	AASB 116	AASB 13
Fair value at the end of the reporting period	✓	✓
The methods and significant assumptions applied in estimating fair value (Note: The requirements included in AASB 116 have been expanded in AASB 13)	✓	✓
Level of the fair value hierarchy within which the fair value measurement in its entirety is categorised	✗	✓
For Level 2 and Level 3 measurements, valuation technique and the inputs used, and changes in the valuation technique, if applicable, and the reasons for those changes	✗	✓

Disclosures	AASB 116	AASB 13
For Level 3 measurements, quantitative information regarding the significant unobservable inputs	×	✓
Amount of transfers between Level 1 and Level 2, the reasons and related accounting policies	×	✓
For Level 3 measurements, reconciliation from the opening balances to the closing balances (including gains and losses, purchases, sales, issues, settlements, transfers in and out of Level 3 and reasons and policies for transfer and where all such amounts are recognised)	×	✓
For Level 3 measurements, the total gains or losses included in profit or loss that are attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the reporting date, and a description of where such amounts are recognised	×	✓
For Level 3 measurements, a description of the valuation processes used by the entity	×	✓
For Level 3 measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs might result in a significantly different amount and, if applicable, a description of interrelationships between those inputs and other unobservable inputs and of how they might magnify or mitigate the effect of changes in the unobservable inputs	×	✓
If the highest and best use of a non-financial asset differs from its current use, disclose that fact and the reason for it	×	✓

Source: AASB 13 Fair Value Measurement: Implications for the not for profit and public sectors, Ernst & Young, October 2013

Issue

6 At its July 2014 meeting, a Board member noted that certain NFP constituents (in particular, local councils) were currently in the process of preparing their annual financial reports, and were concerned about the extent of disclosure necessary to comply with AASB 13.

7 Staff have also received feedback from various constituents who have involvement with local government financial reporting since the July 2014 AASB meeting. Our understanding of the disclosure concerns of these entities is that they primarily relate to non-financial assets measured at fair value and classified as Level 3 in the fair value hierarchy. Staff have summarised the concerns as follows:

(a) Grouping assets into broader classes is difficult, given the different nature and risks of assets held by the entity – this further increases the extent of AASB 13 disclosures as they are required to be made by class of asset. (This is largely a consequence of NFP public sector entities holding multiple dissimilar infrastructure assets and heritage/cultural assets);

(b) Many non-financial assets held at fair value are classified as Level 3 within the fair value hierarchy and therefore require a lot of effort around preparing the disclosure of the sensitivity of inputs;

(c) Where valuations have been undertaken by a professional valuer, councils are finding it difficult to try to explain the sensitivity of unobservable inputs to fair value. Some are concerned that the impact of various inputs such as comparisons and adjustments made and based on quality, age, location or land shape are the expertise of the valuers and not necessarily that of accountants;

(d) Differing views exist as to whether the AASB 13 disclosures provide useful information or add value at a local government reporting level. For example, whether disclosure of substantial fair value information about a community-based asset measured at a fair value that reflects its potential commercial use as its highest and best use provides meaningful information to users of the general purpose financial report;

(e) Some of the information included in the financial report in accordance with AASB 13 may already be publicly available, and there is some disclosure overlap between other notes in the financial report and the disclosures specified by AASB 13. For example, where assets are categorised within Level 3 of the fair value hierarchy, information disclosed in the reconciliation of opening balances to closing balances for recurring fair value measurements categorised within Level 3 of the fair value hierarchy may be consistent with information already disclosed as part of the reconciliation of property, plant and equipment specified by AASB 116 *Property, Plant and Equipment*; and

(f) Compliance with AASB 13 disclosures significantly increases the page count of the annual financial report.

8 Staff have also previously been made aware that there may be disagreement between various parties as to whether the valuation of certain properties in the following circumstances should be categorised as Level 2 or Level 3 in the fair value hierarchy, which accordingly affects the disclosures that need to be provided in the financial report:

(a) specialised building assets, valued on the basis of depreciated replacement cost;

(b) existing use valuations, recognising various restrictions over the use of land; and

(c) buildings valued on an income based valuation approach.

Previous AASB Consideration of NFP Disclosures

9 The Board previously considered, with reference to a pre-ballot draft of IFRS 13, potential issues affecting NFP entities on application of AASB 13 at its March 2011 meeting.[1] These issues included concerns that the disclosure requirements of AASB 13 would be onerous to NFP entities and may qualify for modification under the *Process for Modifying IFRSs for PBE/NFP*. The Board minutes note:

---

1 Refer Agenda Paper 9.2 from the AASB March 2011 meeting, available at: http://www.aasb.gov.au/admin/file/content102/c3/Minutes_unsigned_16-17_March_2011.pdf

"The AASB particularly considered comments from some constituents that the following disclosures, for fair value measurements categorised within Level 3 of the fair value hierarchy, would give rise to costs exceeding the related benefits, and therefore should not be required of NFPs:

(a) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs might result in a significantly different fair value; and

(b) a description of any interrelationships between the inputs mentioned in (a) and other unobservable inputs used in the fair value measurement.

The Board decided that, if the IASB proceeds with its proposals:

(a) there is not a NFP-specific reason to provide an exemption from the above-mentioned disclosures; and

(b) none of the other issues in the issues paper warrant a NFP-specific modification to the forthcoming IFRS 13 when it is incorporated in an Australian Accounting Standard."[2]

10 The Board confirmed its decision to not modify IFRS 13 for application by NFP entities at its meeting in June 2011.[3]

11 Staff note that the Board has previously signalled concerns to the IASB about the operationality of disclosure of the sensitivity of fair value measurements of non-financial assets to changes in unobservable inputs as part of the Board's submission to the IASB on IASB Exposure Draft ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*. (The proposed disclosures were softened in the final IFRS, but the Board's recommendations were not actioned).

Staff Recommendation and Next Steps

12 The feedback received by staff in the main reflects local government constituent concerns who are still in the process of preparing their first financial report incorporating AASB 13 disclosures. Staff think that some of the concerns may be reflective of first-time application of AASB 13. Staff consider that other issues may reflect a more concerning underlying issue of the ability of NFP entities, or at least certain NFP entities, to apply AASB 13 without modification from IFRS 13 without undue cost.

13 Notwithstanding that the Board considered disclosure concerns of NFP entities as part of its due process before issuing AASB 13, in light of the concerns being raised, staff recommend that the Board continue to monitor whether NFP public sector entities face significant practical implementation issues in applying AASB 13. Staff recommend the Board revisit this aspect of disclosure in H1 2015, as by this time, NFP entities

---

2 AASB March 2011 meeting minutes: http://www.aasb.gov.au/admin/file/content102/c3/Minutes_unsigned_16-17_March_2011.pdf

3 AASB June 2011 meeting minutes: http://www.aasb.gov.au/admin/file/content102/c3/Minutes_unsigned_8-9_June_2011.pdf

would have completed one year of applying AASB 13 disclosures and more information in the form of published annual reports of NFP entities, including those of local governments, should be available to staff to conduct further analysis and make a recommendation to the Board as to next steps. As staff expect that a post-implementation review of IFRS 13 will not commence before 2016, staff do not recommend waiting for the IASB's post-implementation review process to progress this aspect of AASB 13.

Question for Board Members

Do Board members agree with the staff recommendation in paragraph 13 above?

APPENDIX: AASB 13 Disclosure Requirements

Note: Shading of the relevant text reflects disclosures that do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.

Disclosure

91 **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.

(b) for recurring 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.

92 To meet the objectives in paragraph 91, an entity shall consider all the following:

(a) the level of detail necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the various requirements;

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this Standard and other Australian Accounting Standards are insufficient to meet the objectives in paragraph 91, an entity shall disclose additional information necessary to meet those objectives.

93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Standard) in the statement of financial position after initial recognition:

(a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other Australian Accounting Standards require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other Australian Accounting Standards require or permit in the statement of financial position in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).

(b) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).

(c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

(e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

   (i) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.

   (ii) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised.

   (iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).

   (iv) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.

(g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).

(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).

(ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

(i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

94 An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

(a) the nature, characteristics and risks of the asset or liability; and

(b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another Standard specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

95 An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 93(c) and (e)(iv). The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

(a) the date of the event or change in circumstances that caused the transfer.

(b) the beginning of the reporting period.

(c) the end of the reporting period.

96 If an entity makes an accounting policy decision to use the exception in paragraph 48, it shall disclose that fact.

97 For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this Standard.

98 For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.

99 An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.