



Australian Government
**Australian Accounting
Standards Board**

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9 September 2014

James K. Mitchell
Chief Financial Officer
Sydney Water Corporation
PO Box 399
Parramatta 2124
New South Wales

Dear Mr Mitchell

Clarification on the use of cost approach under AASB 13 *Fair Value Measurement*

Thank you for your letter dated 8 July 2014. We understand your concern to be whether the 'Aus' paragraphs in AASB 136 *Impairment of Assets* operate such that:

- (a) the use of depreciated replacement cost is limited to only not-for-profit entities as 'value in use in a recoverable amount test for impairment purposes, and therefore depreciated replacement cost is not available more generally to 'for-profit' entities; or
- (b) 'for-profit entities' are not constrained from using depreciated replacement cost as a measure of fair value under AASB 13 *Fair Value Measurement*.

The AASB discussed this concern at its meeting 3-4 September 2014 and noted that the role of depreciated replacement cost as a measure of value in use for not-for-profit entities does not preclude for-profit entities from using current replacement cost as a measure of fair value under AASB 13.

As part of the AASB's discussion on the relationship between current replacement cost and depreciated replacement cost, the AASB also observed that depreciated replacement cost as used in AASB 136 does not have the same meaning as current replacement cost as used in AASB 13. The AASB intends to propose amendments to AASB 136 to clarify this.

If you have questions regarding any matters in this letter, please contact Evelyn Ling (evelynl@asb.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Angus Thomson'.

Angus Thomson
Acting Chair

cc Evelyn Ling, Project Manager, AASB
Nick Nittes, Manager, Financial Accounting, Sydney Water
Nancy Yeung, Director, Financial Accounting Advisory Services, Ernst & Young