21 May 2021

Valuers & Asset Management

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Feedback for AASB: ITC45

IPSASB Exposure Drafts ED 76 Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements and ED 77 Measurement

Please find enclosed feedback on the specific topics as requested. We note that the Exposure Drafts include many notable changes in requirements and concepts from the early papers issued by IPSASB on these issues. In particular, we note a move away from CIPFA UK-GAAP practices which required the creation of hypothetical scenarios. In our view, the new changes, except in rare circumstances, would result in the same valuation whether adopting AASB tentative, IFRS or IPSASB.

Based on the current proposals, the only real resulting difference is that IFRS (AASB) valuation is based on a 'exit price at highest and best use' whereas IPSAS is based on an 'entity specific entry price'. Except in circumstances where a public asset is being used for a purpose significantly lower than what other market participants would choose to use the asset, the valuation under AASB tentative and IPSASB would be the same. As most public sector assets are specialised and built specifically to deliver services to the community (such as specialised buildings and key infrastructure) it would be rare to find such assets where the asset is not being used for its highest and best use.

Such underutilised assets would most likely be limited to general purpose buildings and, we suspect in such cases, the community would raise concerns regarding he inefficient use of public resources and demand the assets be rationalised so that the additional funds could be raised and used to deliver better public services.

The following examples are the most common types of assets held and valued by public sector entities. These examples highlight the resulting valuation would be the same under both AASB tentative and the proposed IPSAS measurement standard.

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Specialised buildings or infrastructure

Specialised buildings or infrastructure are valued in accordance with the AASBs by using the 'cost approach' and adjusting the Replacement Cost for obsolescence to determine the 'Current Replacement Cost'.

The adjustment for obsolescence is based on the key characteristics relevant to market participants and apart from general obsolescence includes condition, location and restrictions (AASB13.11). AASB13 B9 further explains that the concept of obsolescence for valuation is different and much broader than depreciation for financial reporting purposes.

The approach under ED77 Measurement is the same except that under IPSAS it is based on the asset's current use, rather than the asset's highest and best use -

> *43. The cost approach reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition, construction, or development of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.*

Under the existing AASBs the existing use of a specialised public sector asset is assumed to be its highest and best use and therefore, would be the same under both AASB and IPSASB. The only exception would be if the asset were being used for a specific purpose and it was obvious that there was an obvious higher or better use that would demand a higher value. Such instances are extremely rare.

Restricted Land

As per the AASB tentative decisions such land should, assuming there is no market evidence of a sale of land with the same restrictions, be valued using the cost approach with no discount for the restriction.

Under proposed IPSAS the land would also be valued in exactly the same way at its replacement costs (cost to acquire) with no adjustment for any restrictions.

> *B14. The current operational value of restricted assets shall be measured as follows:*
> *(a) If an equivalent restricted asset is obtainable in the orderly market at the measurement date for a price supported by observable market evidence, the asset is measured based on the available market evidence for the equivalent restricted asset, without any further reduction for the restrictions; or*
> *(b) If an equivalent restricted asset is not obtainable in an orderly market at the measurement date for a price supported by observable market evidence, the asset is measured at the price of an equivalent unrestricted asset, without a reduction for the restrictions.*

School with excess capacity

The issue of excess capacity in relation to a school was discussed by the AASB FVM special interest group and a tentative decision was published in Action Alert 197 (April 2019) which stated -

> *"That when measuring an asset's fair value at its current replacement cost, economic obsolescence should not:*
>
> *(i) Be identified if the asset has apparent 'excess capacity' that is temporary or occurs cyclically, because such excess capacity is standby capacity forming part of the asset's service potential that is being measured; and*
> *(ii) Be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity."*

The effect of the ED77 Measurement approach is the same. i.e. Unless the excess capacity was considered to be permanent, and therefore adjusted, there should be no adjustment for excess capacity.

> *BC37. The IPSASB agreed surplus capacity should be included, except to the extent the asset is impaired in accordance with IPSAS 21 and IPSAS 26, when measuring current operational value because this represents the current value of the asset used to provide the service rather than the amount required to achieve the entity's present service delivery objectives in a hypothetical situation.*

Under ED77, if the excess capacity of the school was deemed to be permanent, it would be considered an impairment and the value adjusted to exclude the excess capacity.

Likewise, previous UK-GAAP practices which were prosed in early stages of the ED have now been replaced with practices consistent with IFRS. Specifically, the valuation of a school is to be based on the same location rather than an alternative hypothetical location.

The net result is that a valuation of school, even with excess capacity, would be valued the same under both AASB tentative and IPSAS.

Property held for sale, cash generation or capital gain

Under the proposed IPSAS these would be valued at 'Fair Value' and therefore would return the same value under both IPSAS and IFRS (AASB).

Given that the valuation approaches and results would be the same under AASB tentative and proposed IPSASB we support the Exposure Drafts and believe there is no impediment to possibly changing practice if – through due process – the AASB's tentative decisions to date in its Fair Value Measurement for Not-for-Profit Entities project (where different from current practice) were to come into effect.

We would however recommend that if the IPSAS framework were adopted that the AASB standard include an extra disclosure to report details of assets that are used for the delivery of community benefit but are not held at their highest and best use.

In regard to the FVM special project we again wish to express our view that the special project needs to address the three key fundamental issues which cause the most angst from inconsistent application across the jurisdictions -

- **Determination of Current Replacement Cost: based on adjustment for obsolescence rather than use of depreciation expense concepts.**

  Note that some jurisdictions, through guidance material, actively promote terminology and practices that are no longer consistent with the requirements of AASB13 or AASB guidance. For example - reference to Depreciated Replacement Cost, greenfield/brownfield terminology and approaches based on depreciation expense concepts (useful life) rather than the key characteristics as specified by AASB13.11 (condition, location and restrictions).

- **Clarification regarding the need for depreciation expense to 'match the expected pattern of consumption of the future economic benefit'**

  Note that some jurisdictions, through prescribed requirements or audit pressure, force entities to use the straight-line approach despite the changes made to the AASBs in 1997 (24 years ago). i.e. Requiring that the depreciation method 'must' (now 'shall') match the expected pattern of consumption and removal of the use of straight-line as the fallback position because it was easy.

- **Lack of appropriate disaggregation of assets**

  Note that the Auditors-General in some jurisdictions still sign-off on valuations and depreciation expense calculations despite the asset not being componentised at all or not split into the different parts with a useful life.

Yours faithfully

APV Valuers & Asset Management

David Edgerton FCPA

Director

Comments on Specific Topics

Topic A The measurement basis to apply when measuring the current value of an operational asset (AASB SMC 1–4)

AASB SMC 1 In respect of the measurement basis to apply when measuring the current value of an operational asset, do you agree with:
(a) the IPSASB's proposal that fair value is inappropriate; or
(b) the AASB's view that fair value is still appropriate (whether or not current practice in Australia in applying fair value is maintained)?
Please provide your reasons. See also AASB SMC 2 and SMC 3, which relate to this SMC.

As noted previously, there is a subtle difference in the conceptual frameworks for IFRS (AASB)and IPSASB. However, is also noted that it would only be rare circumstances that there would be a difference in valuation for the majority of assets held by the Australian public sector.

The only difference would arise if the assets used by the entity are considered <u>not</u> to be being used at their highest and best use. In our experience this is very rare.

The valuation techniques applied under Fair Value and Current Value are exactly the same with the only difference being to differentiate (by description of whether Fair Value or Current Operational Value) assets held for the generation of profit and those held to deliver community services. The calculations would be the same under both assuming the asset is used for a purpose that is also its highest and best use. It would only be in very rare circumstances that for a specific asset they might be different. Across an entire portfolio any difference would be most likely be nil or insignificant.

As such our view is that there is no real difference between the two approaches other than in rare cases where the assets are being deliberately under-utilised.

If such a case existed, in order to provide the best financial disclosure we believe the AASB view should be used (highest and best use).

AASB SMC 2 In respect of fair value, do you agree with the AASB's tentative view that hypothetical market participant buyers would include another NFP entity with similar service delivery objectives? Please provide your reasons.

Agree. This is because no other entity would be interested in acquiring such operational assets.

AASB SMC 3 In respect of current value measurement of operational assets, do you agree with:
(a) the IPSASB's views that fair value is inappropriate because:
(i) the 'highest and best use' concept is generally inappropriate for NFP public sector entities; and
(ii) the 'maximise the use of market participant data' concept is generally inappropriate for NFP public sector entities; or
(b) the AASB's tentative views to date that fair value is appropriate because the 'highest and best use' and 'maximise the use of market participant data' concepts should be retained for NFP entities?
Please provide your reasons.

The basis behind this question highlights the fundamental difference in the conceptual frameworks of IFRS and IPSAS. However, now that IPSAS has moved away from some of the practices initially proposed based on UK-GAAP (such as developing hypothetical scenarios in different locations) the difference in conceptual frameworks is greatly reduced. As previously noted, we believe it would only be in very rare circumstances that a public sector asset's use to deliver community benefit would not be its highest and best use.

For specialised buildings (court houses, hospitals, admin centres, depots, universities, etc) the highest and best use will always be what the asset is currently be used for unless it is now being grossly underutilised. For example - hospital services have now moved to a new hospital and old buildings now only used for storage. Under both AASB and IPSASB, assuming the buildings are not separably saleable, the buildings would now be valued to reflect the difference in utility between the existing buildings (hospital design) and the modern equivalent (storage). Due to the specialised nature of the buildings the land is most likely to hold the bulk of the property value and under IPSAS and IFRS would be valued the same. Only the improvements on the land would have a different value and due to the specialised nature of the building design would be unlikely to be of material value.

For infrastructure the public sector use will always be the highest and best use and therefore the IPSAS and IFRS (AASB) value would be the same.

We believe the community would be better served by requiring the public sector to disclosure information about assets when assets are not being used at their highest and best use. This is because the inefficient use of such resources represents an opportunity cost to the community and that governments should be made accountable for inefficient use of resources.

As such -

- We disagree with "IPSAS that Fair Value is inappropriate"
- We disagree that "highest and best use is inappropriate"
- We disagree that "the maximum use of market participant data is inappropriate"
- We agree with the AASBs views that "Fair Value is appropriate."

AASB SMC 4 In respect of fair value, do you agree with the AASB's tentative view that the 'financially feasible use' aspect of the asset's highest and best use should not be applicable to measuring restricted operational assets of NFP entities when an equivalent restricted asset is not obtainable in the marketplace for a price supported by observable market evidence? Please provide your reasons.

Agree. It should be noted that the proposed IPSAS approach is now 100% consistent with the AASBs tentative decision.

The type of assets controlled by public sector entities are typically assets required by the community, but the private sector is unwilling to operate due to the challenges faced in try to charge a service fee and make a profit. For example - roads, waste services, water, open space and recreational assets, etc. The only efficient way to develop and provide such services is for them to be planned, constructed and provided by a public sector entity which can charge fees via rates and other charges across the entire community. This enables the cost to be charged equitably over many years in order to achieve intergenerational equity.

As such, using a commercial world approach, the provision of these services would rarely been seen as financially feasible from the perspective of a commercial business.

Topic B Definition of 'current operational value' (AASB SMC 5)

AASB SMC 5 Do you agree with the IPSASB's proposed definition of 'current operational value' or the alternative definition stated in paragraph AV3 of ED 76 (quoted above)? If you disagree with both definitions, do you have suggestions for another definition of 'current operational value'? In answering this question, please indicate whether you consider that the definition of 'current operational value' should:
(a) clearly reflect the service potential of operational assets; and
(b) focus on the cost of replacing the asset's service potential?
Please provide reasons for your views.

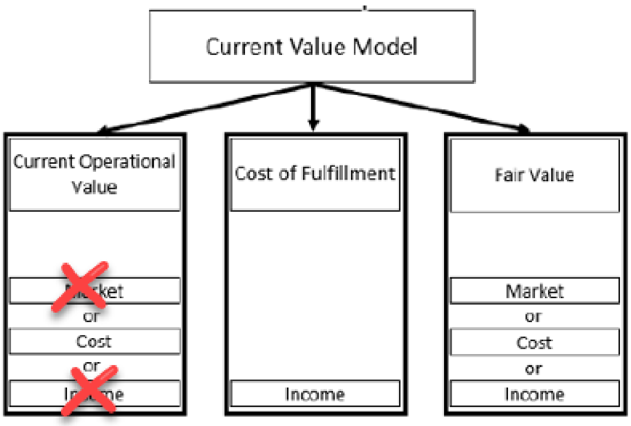
We prefer the alternative definition "*Current Operational Value* is the cost to replace the service potential embodied in an asset at the measurement date."

We believe there is a fundamental error in the valuation approach decision tree for the current value model.

If the asset is being held for the purposes of generating income we agree that that the approach should be "Fair Value' per IFRS (AASB)13.

However, if the assets are held to provide services to the community and measured at Current Operational Value, then the only approach that could possibly be used to value the asset would be the cost approach. Neither market or income approach would be appropriate as, due to the nature of the assets, there would not be an open and active market nor would income generation be of importance. If the assets needed to be valued on these two approaches than logically they should be valued at Fair Value irrespective of the reaosan why they are used by the entity.

Therefore, we believe the definition should reflect that the Current Operational Value represents the cost to replace the service potential currently embodied within the asset and the only approach under Current Operational Value should an 'entity specific entry price' based on the cost approach.



Topic C Measurement techniques for estimating the current operational value of an operational asset: relevance of using the income approach (AASB SMC 6)

AASB SMC 6 Do you agree with:
(a) the IPSASB's proposal in ED 77 that the income approach can be an appropriate measurement technique in certain circumstances to estimate the current operational value of an operational asset (paragraphs B24 and B38); or
(b) the alternative view documented in ED 77 that the income approach would be inappropriate for estimating an operational asset's current operational value because current operational value should focus on the cost to replace the service potential embodied in the asset (paragraphs AV5–AV12)?
Please provide reasons for your view.

We strongly disagree that the income approach should be used to measure the value of operational costs. The example put forward by the IPSASB relates to heritage assets which are used to generate a cashflow.

Under their own framework such assets, if the value is reflected in the income generating capability, would be deemed to be held to generate income and therefore should be valued at Fair Value rather than Operational Value.

The reality is that some assets, such as heritage assets or naturally occurring assets, it is impossible to assign a value that can be reliably determined.

Such an approach would also likely lead to some entities misusing the standard to boost their own financial position. For example, entities may want to recognise the value of natural landscapes such as -

- the Great Barrier Reef
- Blue mountains
- Great Ocean Road
- Uluru
- each national park

Topic D Measuring the current value of an operational asset based on its current use (AASB SMC 7)

AASB SMC 7 In respect of measuring the current value of an operational asset, do you agree with:
(a) the IPSASB's proposal that the asset's current operational value should be measured based on its current use, disregarding potential alternative uses and any other characteristics of the asset that could maximise its market value; or
(b) extending application of the AASB's tentative view (that the fair value of an operational asset should take into account its reinvestment potential), to apply to the measurement of either the asset's fair value or current operational value?

We disagree with the IPSAS position and believe we should extend application of the AASBs tentative view.

As noted previously, we believe that all public sector entities need to be accountable and if assets are being underutilised the community has a right be aware that more value could be achieved by rationalising such underutilised assets.

As such, we believe, public sector entities should disclosure the value of their assets at highest and best use.

Topic E Measuring the current value of restricted operational assets (AASB SMC 8– 10)

AASB SMC 8 In respect of restricted operational assets, if an equivalent restricted asset is obtainable in the marketplace, do you agree with the IPSASB's proposal in ED 77 (and the AASB's tentative view) that the current value of such restricted operational assets should be measured based on the available market evidence for the equivalent restricted asset? If you disagree, do you have suggestions for an alternative way to measure the current value of such restricted operational assets? Please provide your reasons.

Agree noting this is consistent with the AASBs tentative decision which has followed significant debate over many years.

AASB SMC 9 In respect of restricted operational assets, if an equivalent restricted asset is not obtainable in the marketplace, do you agree with the IPSASB's proposal in ED 77 (and the AASB's tentative view) that the current value of such restricted operational assets should not be lower than the current value of an equivalent unrestricted asset? If you disagree, do you have suggestions for an alternative way to measure the current value of such restricted operational assets? Please provide your reasons.

Agree noting this is consistent with the AASBs tentative decision which has followed significant debate over many years.

AASB SMC 10 Would your answer to AASB SMC 9 (for restricted operational assets generally) be different in respect of measuring the current value of restricted land for which equivalent restricted land is not obtainable in the marketplace? Please provide your reasons.

No. While there may not be an easily identified reference site for valuation purposes, valuers are trained to analyse the market and can determine a valuation estimate based on the market evidence of dissimilar land sales using high level trend analysis.

This would of course involve a range of assumptions and should be differentiated in the financial statements as land valued level 3 inputs rather than valued using level 2 inputs. The disclosures should provide information about those assumptions and how they were evaluated for reasonableness. Once disclosed this provides the users of the financial statements with sufficient information to make an informed decision.

Topic F Assumed location of an operational asset used to measure its current value (AASB SMC 11) ITC 45 iv REQUEST FOR COMMENTS

AASB SMC 11 Do you agree with the IPSASB's proposals in ED 77 (and the AASB's tentative view in the context of fair value) that an asset's current value assumes that the entity will continue to meet its service delivery objectives from the same location in which the existing asset is situated or used? Please provide your reasons.

Agree. To assume another location creates an extremely hypothetical scenario which significantly increases the level of uncertainty. Furthermore, given the asset is already providing its service in its present location, for most assets it would be unlikely that such an asset could easily be transferred to a different location. i.e. It is most likely that the asset will continue to operate from the same location and undergo regular enhancement over time.

Topic G Nature of the component costs to include when considering the cost of a modern equivalent asset (AASB SMC 12)

AASB SMC 12 When estimating the cost of a modern equivalent asset to measure the current value of an operational asset, do you agree with:
(a) the IPSASB's proposals in ED 77 that the cost of a modern equivalent asset may in some circumstances exclude certain costs (paragraph B35); or
(b) the AASB's tentative view that all necessary costs intrinsically linked to acquiring or replacing an asset at the measurement date should be included?
Please provide your reasons, including explaining how your preferred treatment relates to the objective of the measurement basis adopted.

We don't see the IPSASB and AASB tentative view as being mutually exclusive.

Under the AASB tentative view we would see that the cost would include all costs necessary assuming the asset does not presently exist but would need to take into it account any costs that would be necessarily incurred.

Under the IPSASB approach the costs that are excluded relate to costs associated with enhancing the asset from its current size and specification.

Under both approaches, we would be valuing the equivalent service potential delivered by the existing asset but based on the modern equivalent. As such, both should be based on the assumption that the asset does not presently exist but would need to take into account all costs that would be necessarily incurred.

Under both approaches we believe provides some additional clarification that the replacement cost of the modern equivalent needs to be adjusted to reflect the service potential delivered by the existing asset (ie. Similar size and specification).

Topic H Whether borrowing costs should be included when considering the cost of a modern equivalent asset (AASB SMC 13)

AASB SMC 13 In respect of measuring the modern equivalent asset as part of the estimation of an operational asset's current value, do you agree with:
(a) the IPSASB's proposal in ED 77 that if an entity does not capitalise borrowing costs in accordance with its accounting policy, the entity should disregard any financing costs (paragraph B35(a)); or
(b) the AASB's tentative view that the accounting policy choice regarding whether to capitalise borrowing costs into an asset's cost on initial recognition is irrelevant to how those costs should be treated when measuring the current value of the asset?

We agree with the IPSASB position in that we would prefer to only include an allowance for the capitalisation of borrowing costs if the entity would also capitalise borrowing costs if were to have to replace the asset.

It is uncommon in Australia to find public sector entities that capitalise the borrowing costs. Typically, this is because the over-riding jurisdictional requirements mandate that borrowing costs be expensed.

The AASB tentatively decided consideratio0n should be given to whether a market participant buyer of the asset would include borrowing costs in its pricing decisions about the asset.

In determining the nature of another market participants, it would be appropriate to assume that the other market participant would be similar and nature and therefore have a similar accounting policy regarding capitalisation of borrowing costs. Ie. If the entity that holds the asset would normally have capitalised the borrowing costs then it would also be appropriate for the valuation to build in an allowance for capitalised interest.

Topic I Consideration of surplus capacity and economic obsolescence (AASB SMC 14–16)

AASB SMC 14 Do you agree with the IPSASB's proposal in ED 77 that the current operational value of an operational asset should assume the asset is used to its full capacity, subject to any tests for impairment (paragraph B11)? Please provide your reasons.

We believe the proposed approach is a significant move away from the earlier draft proposals and as a result are now consistent with the AASB tentative decision regarding excess capacity. Ie. Under both AASB and IPSAS, if the excess capacity of a school is considered to be permanent then the value would need to be adjusted downwards to reflect the permanent decrease in service potential required.

Under IPSAS21 21(d) the impairment would be recognised because -

> *Significant long-term changes with an adverse affect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or expected to be used.*

If the excess capacity is considered to be of a temporary or cyclical nature then they would not represent an impairment event (not significantly long-term) and therefore there would be no adjustment in the determination of the replacement cost.

AASB SMC 15 Do you consider the guidance in ED 77 to be sufficiently clear in distinguishing whether a loss of utility of an asset should be treated as:
(a) surplus capacity, as described in paragraphs B10 and B11 (which is not adjusted for when measuring the asset's current operational value); or
(b) an indication of economic obsolescence, as described in paragraph B36(c) (which is deducted when measuring the asset's current operational value); or
(c) an indication of impairment?
Please provide your reasons.

We disagree with the alternative views expressed by two of the members. This would just add significant complexity and increase the level of unreliability and uncertainty.

We also think that the assumption (AV17) that the severable part of the asset is '*held for its financial capacity*.' It is more likely simply held as excess capacity due to changes over time in demand and technology. In some cases the excess capacity may be severable but in most cases would not be severable.

Furthermore, we believe AASB SMC 15 is confusing the adjustment for a difference in utility between the existing and modern equivalent asset and the subsequential adjustment for obsolescence to determine the current operational value.

For example -

- Assume we have a road surface that is 100 metres long and 6 metres wide (total surface = 600 sq m).
- The modern equivalent is to construct roads with a width of 8 metres.
- The Replacement cost would be modern equivalents unit rate (say $50) by the length and width adjusted for the difference in utility between the existing asset and the modern equivalent. (100 * $50 * 6/8) = $3,750.
- The replacement cost then needs to be adjusted for obsolescence. Consistent with IFRS13.11 , paragraph 32 of ED77 requires the valuation to take account of the key characteristics. These are listed as condition, location and restrictions.
- The replacement cost would then be adjusted down to its current operational value to reflect general obsolescence, condition, etc. In this example we will assume the current operational value is $3,000.
- If the gross disclosure method is adopted the financial statements will show a Replacement Cost of $3,750, Accumulated Depreciation $750 and Carrying Amount of $3000. If the net disclosure method is adopted the financial statements will only show the carrying amount of $3,000.

In the example above, the adjustment for excess capacity or difference between the utility of the existing asset and the modern equivalent affects the calculation of the replacement cost only. This is then adjusted for obsolescence to reflect the current operational value.

Under both IFRS (AASB) and IPSASB should result in the same valuation and disclosure amounts.

We do however believe that there remains a level ambiguity within both sets of standards as many practitioners still try to use depreciation expense concepts to determine the current value rather than general obsolescence and condition, etc. This is despite both IFRS13 and ED77 highlighting that the adjustment for obsolescence is conceptually different and much broader than depreciation for financial reporting purposes.

AASB SMC 16 Do you agree with the Alternative View in paragraph AV17 of ED 77 that, when an asset includes surplus capacity that is severable from the asset and surplus to operating requirements:
(a) the unit of account for the asset's measurement should be bifurcated; and
(b) the severable part of the asset should be classified and measured as an asset held for its financial capacity (i.e. with its current value consequently measured at fair value instead of current operational value under the proposals in ED 76 and ED 77)?
Please provide your reasons.

Disagree. We see no benefit in this and believe it only adds additional complexity and unreliability. The current proposed approach is now consistent with AASB.

Topic J Value in use as a measurement basis identified in the IPSASB's Conceptual Framework (AASB SMC 17)

AASB SMC 17 Do you agree with the IPSASB's proposal to remove 'value in use' from the list of measurement bases in the IPSASB Conceptual Framework? Please provide your reasons. In answering this question, please have regard to the potential implications of the issue addressed by AASB Specific Matter for Comment SMC 15.

Agree. We believe IPSAS should be adjusted to reflect the position of AASB136 where specialised assets that are not held for generation of cash (and therefore valued at current operating value) should be removed from application under the impairment standard.

Topic K Overall comments on the IPSASB's proposed current operational value measurement basis (AASB SMC 18–22)

AASB SMC 18 For NFP entities in Australia, do you support measuring the current value of restricted operational assets using:
(a) the IPSASB's proposed current operational value measurement basis; or
(b) fair value as currently applied under AASB 13; or
(c) fair value incorporating the AASB's tentative views; or
(d) another measurement basis (please provide details)?
Please provide your reasons.

We support the valuing under Fair Valuing incorporating AASB's tentative decisions. However, we note that the proposed IPSAS approach is almost 100% consistent with this approach.

To ensure more consistent understanding of the requirements and application of the AASBs, we believe that the AASB should publish worked examples detailing the process and steps involved in determining Fair Value (and their subsequent depreciation) for specialised public sector assets.

AASB SMC 19 For NFP entities in Australia, do you support measuring the current value of unrestricted operational assets using:
(a) the IPSASB's proposed current operational value measurement basis; or
(b) fair value as currently applied under AASB 13; or
(c) fair value incorporating the AASB's tentative views; or
(d) another measurement basis (please provide details)?
Please provide your reasons.

We support the valuing under Fair Valuing incorporating AASB's tentative decisions.

AASB SMC 20 Unless already provided in response to the above AASB SMCs, please provide an indication of the likely costs and benefits (quantitative and qualitative) of the IPSASB's proposed current operational value measurement basis relative to:
(a) fair value as currently applied under AASB 13; and
(b) fair value incorporating the AASB's tentative views.
In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the IPSASB's proposed current operational value measurement basis relative to fair value (under current practice and/or incorporating the AASB's tentative views).

We believe that the work involved and information required for all approaches is almost identical and as such there is no difference in costs involved.

We do however wish to note our view that many valuations currently delivered in Australia and not done in accordance with the existing AASBs. Such valuations have used overly simplified approaches or taken extreme shortcuts in order to reduce time and cost. This includes -

- Not splitting assets into the different parts with a different useful life and providing a valuation for each part
- Not basing the valuation on general obsolescence, condition, location or restrictions
- Basing valuation on simplistic whole of asset high-level depreciation (useful life) assumptions

AASB SMC 21 Unless already provided in response to the above AASB SMCs, please provide an explanation of whether you consider, overall, that the IPSASB's proposed current operational value measurement basis would:
(a) create any auditing or assurance challenges;
(b) result in financial statements that would be useful to users; and
(c) be in the best interests of the Australian economy.

We do not perceive any issues in adopting the proposed IPSASB approach as the processes involved and results would be almost identical to those produced in accordance with the existing AASB and AASB tentative decision frameworks.

AASB SMC 22 Are there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the IPSASB's proposed current operational value measurement basis, including Government Finance Statistics (GFS) implications? Please include an explanation in your response.

No comment