Dear Sir/Madam,

Please find below response (in red) to proposed ED 320 Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities:

Application of the cost approach Questions 9–16 relate to applying the cost approach under AASB 13 paragraphs B8–B9.

Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? I do not agree that all costs associated with the construction of an asset not currently in existence should be included in its CRC. This is because of a few things:

- There is still no legislation or guidance around "natural" assets which in our organisation are currently expensed
- At the revaluation interval all associated costs will be written off and replaced with what a consulting valuation firm (typically) considers the cost to construct that asset. For example, a footpath constructed may have included relocating services, laying turf, and repairing a driveway crossing. A consultant would be engaged to look at all of the organisations footpath assets and apply the same construction principals to create their revised unit rate at the revaluation date. This would not include the specifics of relocating services, repairing the driveway, and unlikely to include allowances for turf – these "site specific" costs, as seen in the construction industry when quoting on projects, are usually an "exclusion" to the cost. The cost/benefit ratio of keeping track of the "site specific" charges per asset (in classes that have thousands, to hundred of thousand records) is not justified. Signification revaluation adjustments could be expected.
- In the instance of relocating a service for a footpath, relaying this section into the future would not require the relocation cost. Depreciation write off could be higher than necessary.

Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (i.e. a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Agree unless no reference asset is available.

Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Disagree, similar reasonings to F14(b) above.

Do you agree with the proposal in paragraph F15(b) that, when estimating the current replacement cost of the subject asset, an entity should determine, based on the circumstances of the subject asset, whether the following costs would (among other costs) need to be incurred upon the hypothetical acquisition or construction of that asset at the measurement date:

(a) unavoidable costs of removal and disposal of unwanted existing structures on land; Agree and disagree. When replacing like for like, typically the original is disposed. However, there are some instances where there are "one of" unavoidable demolition/disposal costs and once again poses the issue of writing this cost off at the revaluation. For example, and old shed is in the way of where a playground is to go – the cost to demolish the shed and dispose of the waste would be a "one off" of the replacement of the playground. The ongoing replacement cost of the playground would include its demolition and removal, but not of the original structures on site. Refer to comment on F14(b) on valuation firms difficulty here.

and

(b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs? This is also a difficult one to keep track of for revaluation purposes. For example, works causing a road closer would vary every time an entity would recreate these works. Similarly, to wet weather charges, the length of the closure may vary each time the particular asset was to be renewed. Could apply the contingency percentage principal here instead of rates.