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Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
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Our ref ED 320

28 June 2022

Dear Mr Kendall

ED 320 Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public sector Entities

We are pleased to have the opportunity to comment on Exposure Draft 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public sector Entities* (ED 320).

KPMG is broadly supportive of the proposals made specifically in respect of not-for-profit (NFP) public sector entities regarding fair value measurement of non-financial assets not held primarily for their ability to generate net cash inflows. We have the following comments on specific matters:

Question 1: Application to NFP entities in the private sector

We do not consider that the proposed authoritative implementation guidance should be applicable also to NFP entities in the private sector without further consultation. The proposals reflect the output of a public sector focused project. It is foreseeable that public sector considerations do not translate to a private sector context. Private sector stakeholders may have perspectives that the existing project has not captured.

Questions 5-6: Highest and best use (paragraphs F9 to F13)

We support the proposal that an asset's current use is its highest and best use should be rebutted when, and only when, the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or to use the asset for an alternative purpose. However, we have suggestions to clarify how this principle is applied.

- Applying the principle in paragraph F9, it is necessary to first identify the appropriate level of management and then look for its relevant commitment. As such, we suggest paragraph F11 guidance concerning the appropriate level of management, should precede paragraph F10 guidance which deals with the commitment.
- We are of the view that the proposed guidance in paragraph F11 could lead to inconsistent application.

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- The last two sentences in F11 articulate the fundamental principles that preparers should consider when identifying the appropriate level of management and, as such, should be cited prior to specific examples.
- When examples are cited in F11, the current wording could be interpreted to mean that where the entity is controlled by a government, the appropriate level of management will only be the entity's responsible Minister or the Cabinet of that government. Depending on the circumstances, the appropriate level of management could also be the head or CEO of an entity or the Directors of a corporate government entity for example. We suggest explicit clarification that the examples are not exhaustive.

- As written, the example steps provided in F10 may also lead to confusion and inconsistent application.
    - The steps listed in F10(a) and F10(b) typically precede any decision to commit to a plan to sell the asset or use the asset for an alternative purpose. These steps indicate only that an entity has commenced exploring the possibility of taking such action and it is not uncommon for these activities to conclude that no feasible alternate use exists.
    - In contrast, the step outlined in F10(c) typically occurs after a relevant commitment by management. Grouping of all three steps infers to readers that steps F10(a) and F10(b) are evidence of some commitment.
- We note that AASB 5, *Non-current Assets Held for Sale and Discontinued Operations* already includes guidance and criteria to evidence commitment by an appropriate level of management. However, we acknowledge that AASB 5 does not apply to the continued use of an asset for an alternate purpose. Further, the AASB 5 criteria may not achieve an accurate fair value in accordance with AASB 13 where an alternate use has clearly been identified yet no sale activity has commenced.
- We therefore suggest that the guidance in F10 provide examples of when management is exploring the possibility (i.e. F10(a) and F10(b)) and provide separate examples of when a commitment exists (i.e. F10(c) and others). We believe the guidance could be enhanced with additional examples to indicate where a commitment exists, such as when a Cabinet, Ministerial or Board decision has been made or where a decision to pursue a feasible alternate use has been communicated publicly following an evaluation exercise. We also suggest clarification that a general policy from a government that surplus assets be divested is generally insufficiently specific to support a commitment by management for sale or re-purposing.
- Finally, we suggest inclusion of guidance that when considering whether a commitment from an appropriate level of management exists, preparers need to have regard to requirements (legislative and policy) and conventions for decision making as applicable to the relevant public sector jurisdiction.

Questions 9-14: Application of the cost approach (paragraphs F9 to F13)

We support the proposals contained in paragraphs F14 and F15 as to the application of the cost approach when measuring the fair value of a non-financial asset of a NFP entity not held primarily for its ability to generate cash flows.

We suggest that the guidance contained in paragraph F15 could be enhanced, including with alternate examples, to clarify what is meant by "expected manner of replacement in the ordinarily course of operations". For instance, in addition to legislative or regulatory restrictions on land use, NFP public sector entities may be subject to Government policies that direct or limit replacement options on a range of non-financial assets, for example, policies in relation to Australian industry content or security requirements. On occasion, these could lead to a materially different fair value than one based on what is the "cheapest legally available".

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Heather Watson on (02) 9455 9438 or myself on (02) 6248 1135.

Yours sincerely

Tom Moloney
Partner