



<b>Project:</b>	<b>Fair Value Measurement for Not-for-Profit Entities</b>	<b>Meeting:</b>	AASB February 2021 (M179)
<b>Topic:</b>	<b>Stakeholder survey results</b>	<b>Date of this paper:</b>	10 February 2021
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		<b>Project Priority:</b>	Medium
		<b>Decision-Making:</b>	Medium
		<b>Project Status:</b>	Consider AASB SMCs to accompany the exposure of IPSASB ED 76 and ED 77 and survey results

## Objective of this Agenda Paper

1. A survey was sent to members of the Fair Value Project Advisory Panel and stakeholders who originally requested guidance to assist not-for-profit (NFP) public sector entities in applying AASB 13 *Fair Value Measurement* to understand:
  - (a) whether circumstances and the scope of guidance sought have changed since they originally requested guidance (e.g. whether the extent of diversity in applying AASB 13 in the NFP public sector changed); and
  - (b) the specific aspects of fair value measurement for which guidance is most promptly needed.
2. The objective of this Agenda Paper is to provide a high-level summary of stakeholders' responses to the survey **for noting** by Board members. Aggregated survey results are contained in Agenda Paper 10.4 (in supplementary folder) for the Board's reference.
3. Since the Board decided to consider the IPSASB's Measurement project before proposing any NFP amendments to AASB 13, the focus of the next few meetings will be on considering the IPSASB's proposals and constituents' comments on those proposals. Therefore, staff do not propose discussing specific comments about the direction of the FVM project raised by survey respondents at this meeting.
4. A staff paper on the potential implications of the survey results and comments on the AASB Invitation to Comment (ITC) for the scope and timing of the Board's future work on its Fair Value Measurement for Not-for-Profit Entities project (FVM project) is expected to be prepared for deliberation at the November 2021 meeting.

## Structure of this paper

5. This paper is structured as follows:
  - (a) [Section 1](#): Information sought in the survey
  - (b) [Section 2](#): Overall responses
  - (c) [Section 3](#): Comments on specific topics
  - (d) [Section 4](#): High-level summary of responses on the importance and urgency aspects of six measurement topics that the Board has been deliberating
  - (e) [Appendix](#): Summary of the Board's tentative views on key fair value measurement topics (for reference only)

### Section 1: Information sought in the survey

6. The [Appendix](#) contains, for the Board's reference, a high-level summary of six key fair value measurement topics deliberated to date and the Board's tentative views. (**Note:** Agenda Papers 10.1 and 10.2 include draft AASB Specific Matters for Comment on each of the IPSASB's Application Guidance addressing these measurement topics<sup>1</sup> for the Board's consideration.)
7. In relation to each fair value measurement topic outlined in the [Appendix](#), the survey sought comments from stakeholders about the following three aspects:
  - (a) **Importance:** How important is it that the AASB develops guidance on the topic to assist NFP public sector entities to apply the principles in AASB 13?
  - (b) **Urgency:** How promptly is NFP guidance needed (if at all) on the topic?
  - (c) **Changes:** Have circumstances changed since stakeholders asked the AASB to develop guidance on the topic?

This Agenda Paper provides a high-level summary of responses to these questions.

8. The survey also asked stakeholders to:
  - (a) provide reasoning for their answers in respect of the importance and urgency aspects explained in paragraph 7(a) and 7(b);
  - (b) explain the nature of any change(s) in circumstances in respect of paragraph 7(c); and
  - (c) identify any other topics regarding fair value measurement by NFP public sector entities for which there is a pressing need for guidance.

Staff expect to discuss responses to these questions at the November 2021 meeting when the Board discusses the scope and timing of future work on the FVM project.

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<sup>1</sup> The Board has deliberated these measurement topics in the context of fair value measurement, whereas the IPSASB has developed its proposals under its proposed approach to develop a current measurement basis that differs from fair value.

## Section 2: Overall responses

9. Thirteen responses were received (one of which was an omnibus response from an intergovernmental committee).
10. Apart from the intergovernmental committee, the responses were from:
  - 6 public sector auditors (including one auditor providing views in a personal capacity)
  - 2 public sector financial statements preparers
  - 3 valuers
  - 1 respondent providing advisory services to clients.
11. The intergovernmental committee confined its comments to providing views on the Board's tentative views. Therefore, its response was excluded from Columns B and C (regarding importance and urgency) of the Table in paragraph 24. Where relevant, responses from the intergovernmental committee have been reflected in Column D (Remarks).
12. In respect of the question described in paragraph 7(c), 10 of the 12 respondents answered that circumstances have not changed since asking the AASB to develop guidance on the six topics. One respondent commented that the issues relating to Topic 5 and Topic 6 in the Appendix have become more prevalent than when those issues were first raised with the AASB. In contrast, another respondent commented that the circumstances on most of the topics have changed because preparers and users of financial statements are becoming more familiar with the application of AASB 13 and many of those issues have been resolved.
13. Based on the responses received, guidance on the six topics is still requested.
14. The overall responses to the importance and urgency aspects of the six topics (as explained in paragraph 7(a) and 7(b)) are mixed:
  - Four public sector auditor respondents expressed views that each jurisdiction has sufficient guidance to enable most of the six topics to be addressed consistently within a jurisdiction. One of these 4 respondents considers that guidance is not needed on majority of these topics, but 3 of them commented that guidance on these topics would still be helpful (note that responses from some of these respondents indicate that they do not necessarily agree with all of the Board's tentative views). Some of these auditor respondents commented that:
    - preparers and auditors have become more familiar with applying the concepts in AASB 13 since requesting the AASB to provide guidance; and
    - each Treasury has issued guidance on the application of AASB 13 and the concepts and principles are, by large, consistently applied; and
  - In contrast:
    - Two public sector auditor respondents expressed a view that diversity in practice exists and guidance is still needed urgently on some of the topics; and
    - Three valuers, 2 preparers of public sector financial statements and an accounting adviser respondent expressed views that guidance is needed (at least for some of the six topics) to ensure consistency amongst jurisdictions.

### Section 3: Comments on specific topics

#### ***Borrowing costs in the context of service concession arrangements***

15. As noted in the responses about Topic 5 in the Table in paragraph 24, an intergovernmental committee and some public sector auditor respondents noted that AASB 1059 *Service Concession Arrangements: Grantors* (the first applicable 30 June annual reporting year-end for which ends on 30 June 2021) is accompanied by two illustrative examples (Examples 6 and 7) that illustrate including borrowing costs in the current replacement cost of service concession assets. They commented that guidance would be helpful to:
  - (a) clarify whether borrowing costs should be included in the current replacement cost of service concession asset; and
  - (b) identify who the market participant buyers are for the service concession asset (in order to determine the interest rate to apply) because the cost of borrowing in the public sector is generally significantly less than in the private sector.
16. Staff note that AASB 1059 does not specify that borrowing costs must be included in the service concession asset's current replacement cost. AASB 1059 is accompanied by illustrative examples showing calculations where borrowing costs are included in the current replacement cost of a service concession asset for illustration purposes only.
17. In respect of paragraph 15(a), the Board tentatively decided that the issue of whether to include borrowing costs in current replacement cost measurements under AASB 13 affects for-profit and NFP entities alike. In light of AASB 13 not specifying the treatment of borrowing costs for fair value measurements by for-profit entities, the Board reached the view that it would be inappropriate to mandate a particular treatment for NFP entities applying AASB 13.
18. In reaching this view, the Board tentatively decided to state in its Basis for Conclusions on its future Fair Value Measurement for NFP Entities Exposure Draft that an NFP entity should consider whether a market participant buyer of the asset would include borrowing costs in its pricing decisions about the asset. The characteristics of the market participant buyer is the subject of the respondents' request described in paragraph 15(b). Staff observe that IFRS 13 *Fair Value Measurement* does not provide specific guidance in identifying a market participant of an asset. It would be difficult to provide such guidance in respect of service concession arrangements because these arrangements are, by nature, usually heterogeneous and judgement needs to be applied for each service concession asset in determining who the market participants are.
19. Because this issue neither relates to a requirement of AASB 1059 nor involves a conflict between AASB 1059 and AASB 13, there is not an imperative to address this issue in time for 30 June 2021 financial year-end. Staff note that the Board is scheduled to commence a post-implementation review of AASB 1059 after July 2022 to investigate any implementation issues.<sup>2</sup>
20. **Staff recommendation:** Staff recommend the Board seek more information about this issue (including diversity of practice) through its process of responding to the IASB's Agenda

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<sup>2</sup> Paragraph 7.15.1 of the [Due Process Framework](#) states that a post-implementation review of a new domestic Standard normally begins after it has been applied for two years.

Consultation. Subject to comments received, the Board could consider requesting the IASB to add this issue to its work programme, in view of potential diversity of practice.

**Question for Board members**

Q7: Do Board members agree with staff recommendation in paragraph 20 to seek more information about the borrowing costs issue through its process of responding to the IASB's Agenda Consultation?

***Other fair value measurement-related issues to be addressed in the project***

21. Some respondents commented that other fair value measurement-related issues that may require guidance include:
- measuring the fair value of assets subject to 'physical restrictions' (e.g. land under water, and national parks where the asset is not readily replaceable; and cemetery land where human remains cannot be moved);
  - restrictions relating to caveats attached to land (e.g. land under a biodiversity scheme that cannot be used for another purpose);
  - measurement of incurable physical obsolescence;
  - determination of current replacement cost: specifically, whether the measurement should be based on assumptions relevant to market participants rather than using depreciation expense;
  - differentiating physical depreciation as a deduction from the asset's current replacement cost and depreciation expense under AASB 116 *Property, Plant and Equipment*; and
  - depreciation expense reflecting the pattern of consumption, rather than the entity applying the straight-line method by default.
22. **Staff recommendation:** Staff note that some of these issues are not specifically related to fair value measurement and might not belong within the scope of the FVM project. Therefore, staff recommend that the Board consider including any topics that are not specifically related to fair value measurement in its Agenda Consultation for domestic projects. Staff expect to analyse these topics as part of the agenda papers for the Board's deliberation at a future meeting regarding potential projects for inclusion in the consultation document for the Agenda Consultation for domestic projects.
23. Staff expect to provide analysis of those topics that are related to fair value measurement for the Board's deliberations in November 2021, as part of the discussion regarding the scope and timing of future work on the FVM project.

**Question for Board members**

Q8: Do Board members agree with staff recommendation in paragraph 22 to consider topics that are not specifically related to fair value measurement through its process for the Agenda Consultation for domestic projects?

**Section 4: High-level summary of responses on the importance and urgency aspects of the six topics**

24. The following Table summarises stakeholders’ responses in respect of the survey questions described in paragraph 7(a) and (b). The Table is set out as follows:

- Column A – Topics that the Board deliberated for which tentative conclusions have been reached (as outlined in the [Appendix](#));
- Column B – How respondents have rated the “Importance” of the topic;
- Column C – How respondents have rated the “Urgency” of the topic; and
- Column D – Remarks.

<b>A: Topics</b>	<b>B: Importance</b> 1 = Unimportant 5 = Very important	<b>C: Urgency</b> 1 = No pressing need 5 = Urgent	<b>D: Remarks</b>
<p>1. To what extent do restrictions on the use or pricing of the use of a non-financial asset held by a NFP public sector entity primary for its service capacity affect the asset’s fair value?</p> <p>[Q2–Q7 of the survey]</p>	<p>Average rating = 4.2<sup>1</sup></p> <ul style="list-style-type: none"> <li>• 1 respondent rated 1</li> <li>• 0 respondents rated 2</li> <li>• 2 respondents rated 3</li> <li>• 2 respondents rated 4</li> <li>• 7 respondents rated 5</li> </ul>	<p>Average rating = 4.2</p> <ul style="list-style-type: none"> <li>• 1 respondent rated 1</li> <li>• 0 respondents rated 2</li> <li>• 2 respondents rated 3</li> <li>• 2 respondents rated 4</li> <li>• 7 respondents rated 5</li> </ul>	<ul style="list-style-type: none"> <li>• Most respondents acknowledged there is diversity of views and interpretations of the effect of restrictions on public sector assets' fair value measurements and said guidance is urgently needed.</li> <li>• 1 respondent noted that this issue is exacerbated when there is a change in valuers (change in the approach to restrictions) and preparers and valuers are often grappling with whether to reduce the fair value of an asset to reflect restrictions; and if so, the quantum of that reduction.</li> <li>• 2 public sector auditor respondents considered that each jurisdiction has sufficient guidance to address this issue.</li> <li>• 1 respondent commented that this issue largely affects land assets, which compose a small proportion of the</li> </ul>

<sup>1</sup> Average rating has been rounded to the nearest decimal.

A: Topics	B: Importance 1 = Unimportant 5 = Very important	C: Urgency 1 = No pressing need 5 = Urgent	D: Remarks
			public sector's total reported holdings of non-financial assets.
<p>2. How to apply the concept of 'highest and best use' to assets held primarily for their service capacity</p> <p>[Q8–Q13 of the survey]</p>	<p>Average rating = 3.4</p> <ul style="list-style-type: none"> <li>• 1 respondent rated 1</li> <li>• 2 respondents rated 2</li> <li>• 3 respondents rated 3</li> <li>• 3 respondents rated 4</li> <li>• 3 respondents rated 5</li> </ul>	<p>Average rating = 3.5</p> <ul style="list-style-type: none"> <li>• 1 respondent rated 1</li> <li>• 1 respondent rated 2</li> <li>• 4 respondents rated 3</li> <li>• 3 respondents rated 4</li> <li>• 3 respondents rated 5</li> </ul>	<ul style="list-style-type: none"> <li>• This issue is important for FVM of heritage assets.</li> <li>• The AASB's tentative decision to exclude NFP entities from applying the 'financially feasible use' aspect of highest and best use could lead to the highest and best use concept being applied differently depending on whether the entity is FP or NFP.</li> <li>• There is a need for guidance for determining whether an asset is held primarily for its service capacity; particularly in cases where an asset generates income at subsidised rates.</li> </ul>
<p>3. Assumed location of land forming part of a facility measured at current replacement cost</p> <p>[Q14–Q19 of the survey]</p>	<p>Average rating = 3.3</p> <ul style="list-style-type: none"> <li>• 2 respondents rated 1</li> <li>• 1 respondent rated 2</li> <li>• 4 respondents rated 3</li> <li>• 2 respondents rated 4</li> <li>• 3 respondents rated 5</li> </ul>	<p>Average rating = 3.3</p> <ul style="list-style-type: none"> <li>• 2 respondents rated 1</li> <li>• 1 respondent rated 2</li> <li>• 3 respondents rated 3</li> <li>• 3 respondents rated 4</li> <li>• 3 respondents rated 5</li> </ul>	<p>5 respondents expressed views that there is no significant divergence in practice on this issue. However, most respondents expressed that guidance would be helpful to clarify this issue and to avoid unnecessary time on consideration of hypothetical locations.</p>
<p>4. Nature of component costs to include in an asset's current replacement cost (CRC)</p> <p>[Q20–Q25 of the survey]</p>	<p>Average rating = 3.8</p> <ul style="list-style-type: none"> <li>• 1 respondent rated 1</li> <li>• 1 respondent rated 2</li> <li>• 2 respondents rated 3</li> <li>• 4 respondents rated 4</li> <li>• 4 respondents rated 5</li> </ul>	<p>Average rating = 3.4</p> <ul style="list-style-type: none"> <li>• 2 respondents rated 1</li> <li>• 2 respondents rated 2</li> <li>• 1 respondent rated 3</li> <li>• 3 respondents rated 4</li> <li>• 4 respondents rated 5</li> </ul>	<p>Most respondents expressed views that guidance is needed. Specific aspects mentioned by respondents include:</p> <ul style="list-style-type: none"> <li>• whether valuations should be performed on a 'greenfields' or 'brownfields' basis;</li> <li>• the meaning of make-good costs and demolition costs;</li> <li>• consideration of costs that would not need to be repeated if the asset was to be replaced (e.g. site preparation costs);</li> <li>• consideration of costs for impacts on surrounding assets; and</li> </ul>

A: Topics	B: Importance 1 = Unimportant 5 = Very important	C: Urgency 1 = No pressing need 5 = Urgent	D: Remarks
			<ul style="list-style-type: none"> <li>the costs to be included in CRC when only a part of the asset is replaced.</li> </ul>
<p>5. Consider whether to develop guidance on whether the current replacement cost of a self-constructed asset should include borrowing costs</p> <p>[Q26–Q31 of the survey]</p>	<p>Average rating = 2.8</p> <ul style="list-style-type: none"> <li>4 respondents rated 1</li> <li>1 respondent rated 2</li> <li>3 respondents rated 3</li> <li>2 respondents rated 4</li> <li>2 respondents rated 5</li> </ul>	<p>Average rating = 2.7</p> <ul style="list-style-type: none"> <li>4 respondents rated 1</li> <li>2 respondents rated 2</li> <li>2 respondents rated 3</li> <li>2 respondents rated 4</li> <li>2 respondents rated 5</li> </ul>	<p>Some respondents do not consider this to be a key issue. However, an intergovernmental committee and 2 auditor respondents consider that guidance is urgently needed. They commented that examples accompanying AASB 1059 <i>Service Concession Arrangements: Grantors</i> illustrate including borrowing costs in the current replacement cost of service concession assets, and there is a pressing need for guidance to clarify the implications of those examples.</p> <p>Another auditor respondent explained that this issue would be more prevalent in the future because some government entities have increased capital expenditure funded by higher debt levels due to the impact of the COVID-19 pandemic, but considers this to be a moderately urgent issue.</p>
<p>6. How to identify and measure economic obsolescence</p> <p>[Q32–Q37 of the survey]</p>	<p>Average rating = 3.6</p> <ul style="list-style-type: none"> <li>2 respondents rated 1</li> <li>1 respondent rated 2</li> <li>1 respondent rated 3</li> <li>4 respondents rated 4</li> <li>4 respondents rated 5</li> </ul>	<p>Average rating = 3.3</p> <ul style="list-style-type: none"> <li>2 respondents rated 1</li> <li>1 respondent rated 2</li> <li>2 respondents rated 3</li> <li>5 respondents rated 4</li> <li>2 respondents rated 5</li> </ul>	<ul style="list-style-type: none"> <li>Some respondents commented that, if the Board proceeds with its tentative decision, guidance would be required to explain how to exercise judgement to determine the indicators of reduced demand that would give rise to obsolescence.</li> <li>1 auditor respondent commented that this issue has become more prevalent due to the impact the COVID-19 pandemic has on the demand for some public services, such as public transport, potentially resulting in surplus capacity.</li> <li>1 respondent commented guidance might also be helpful to explain the interaction with AASB 136 <i>Impairment of Assets</i>.</li> </ul>



## Appendix: Summary of the Board’s tentative views on key fair value measurement topics

The following Table provides a high-level summary of six fair value measurement topics deliberated to date and the Board’s tentative views.

Topics	Board’s tentative views
<p>1. To what extent do restrictions on the use or pricing of the use of a non-financial asset held by a NFP public sector entity primarily for its service capacity affect the asset’s fair value?</p>	<p>Market participant buyers of the asset include another NFP public sector entity providing the same public service. Therefore, the fair value of a restricted non-financial asset held primarily for its service capacity should, in the absence of observable market evidence that an equivalent restricted asset is obtainable in the marketplace at the measurement date, be measured as its current replacement cost without deducting an adjustment for the effect of the restriction(s). The AASB noted that deeming this amount to be the asset’s fair value might not be compliant with IFRS 13 <i>Fair Value Measurement</i>.</p> <p>In respect of the legally permissible uses of an asset referred to in AASB 13 paragraph 28(b), if a government can rescind a law or regulation restricting the use (or pricing of the use of) an asset and does not require parliamentary approval for that rescission, the fair value measurement of that asset held by the government should assume that the restriction would not pass to the market participant buyer.</p>
<p>2. How to apply the concept of ‘highest and best use’ to assets held primarily for their service capacity</p>	<p>The highest and best use concept in AASB 13 should continue be applicable to NFP entities.</p> <p>However, the ‘financially feasible use’ aspect of a non-financial asset’s highest and best use (as described in paragraph 28(c) of AASB 13) should not be applicable to restricted assets of NFP entities held primarily for their service capacity.</p>
<p>3. Assumed location of land forming part of a facility measured at current replacement cost</p>	<p>An asset’s service capacity includes its ‘reinvestment potential’, i.e. the ability to sell the asset and reinvest the proceeds in other stores of service capacity. Therefore, replacement of an asset should always be assumed to occur in its present location even if it would be feasible to relocate the facility to a site with cheaper land.</p>
<p>4. Nature of component costs to include in an asset’s current replacement cost</p>	<p>The current replacement cost of assets composing a self-constructed facility includes all necessary costs intrinsically linked to acquiring the facility at the measurement date. An NFP public sector entity should assume that the facility presently does not exist and should take into account any make-good costs that must be incurred for surrounding facilities of another entity disturbed when the entity’s facility is replaced.</p>
<p>5. Consider whether to develop guidance on whether the current replacement cost of a self-</p>	<p>No guidance is proposed for AASB 13. The Board tentatively decided that an NFP entity should consider whether a market participant buyer of the asset would include borrowing costs in its pricing decisions about the asset.</p> <p>The Board took the view that this issue affects for-profit and NFP entities alike and, in light of AASB 13 not specifying the treatment of borrowing</p>

Topics	Board's tentative views
constructed asset should include borrowing costs	costs for fair value measurements by for-profit entities, it would be inappropriate to mandate a particular treatment for NFP entities applying AASB 13.
6. How to identify and measure economic obsolescence	<p>If an asset has suffered a reduction in demand for its services, the identification of its economic obsolescence should not require a formal decision to have been made to reduce the physical capacity of that asset.</p> <p>However, if an asset has apparent overcapacity in view of current demand for its services, economic obsolescence should not be identified for that asset if there is more than an insignificant chance that future increases in the demand for its services will largely eliminate that overcapacity within the foreseeable future.</p>