Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Fair Value Measurement for Not-for-Profit Entities**	**Meeting:**	AASB November 2021 (M184)
Topic:	**Other measurement issues on which guidance has been requested**	**Date of this paper:**	26 October 2021
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		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Consider whether to address other issues

Objective of this paper

1. The objective of this paper is for the Board to **decide** whether standard-setting action is needed to address other issues related to the measurement of non-financial assets on which individual members of the Fair Value Project Advisory Panel (the Panel) sought the Board's guidance.

Reasons for bringing this paper to the Board

2. Staff have previously noted to the Board[1] that two members of the Panel have raised several additional measurement issues that they consider the Board should address as part of the Fair Value Measurement for Not-for-Profit Entities project (FVM project).

3. Staff have not presented an analysis of these other measurement issues to the Board before this meeting. This approach was agreed with the Board at its November 2020 meeting, in light of the Panel having agreed in 2018 the key issues on which it sought guidance from the Board (addressed in Agenda Paper 3.2 for this meeting).

4. With the Board recommencing deliberations on the FVM project, staff consider that it is now appropriate for the Board to consider whether, and if so, how to address each of those additional issues raised by the two Panel members.

Basis of staff analysis

5. As discussed in Sections 1–11 below, staff have analysed each issue raised by the Panel members as follows:

   (a) Step 1: Consider whether standard-setting action is needed under the *AASB Not-for-Profit Entity Standard-Setting Framework* (the NFP Standard-Setting Framework). Specifically, staff considered whether each issue would require NFP-specific amendments, specific

1 See paragraph A6 of Appendix A in Agenda Paper 4.1 for the November 2020 meeting.

guidance or examples under the NFP Standard-Setting Framework; and

(b) Step 2: Where staff are of the view that an issue does not require standard-setting action, staff considered whether NFP public sector stakeholders might benefit from:

(i) understanding the rationale for not taking standard-setting action; or

(ii) reiteration of the requirements in existing pronouncements.

The approach recommended assesses whether an issue affects a significant number of NFP public sector entities and is subject to potentially diverse interpretation, based on the NFP Standard-Setting Framework and the *AASB Due Process Framework for Setting Standards* (Due Process Framework).

Structure of this paper

6. Each issue raised by the Panel members is presented separately in Sections 1–11 of this paper. This paper is set out as described in paragraph 7.

7. For each issue raised by the Panel members:

(a) Sections 1–11 contain the staff analysis undertaken in Step 1 described in paragraph 5(a). This analysis assesses whether the issue requires any standard-setting actions under the NFP Standard-Setting Framework; and

(b) Section 12 contains the staff analysis undertaken in Step 2 described in paragraph 5(b). This analysis assesses whether:

(i) NFP public sector entities would benefit from an explanation of the Board's reasons for not taking standard-setting action and/or reiteration of the requirements in existing pronouncements; and

(ii) such explanations should be set out in the Basis for Conclusions section of the forthcoming Exposure Draft that would propose a modification to AASB 13 *Fair Value Measurement* (FVM ED) or a proposed agenda decision.

(c) The Appendix to this paper contains, for the Board's information, a summary of the paragraphs in the NFP Standard-Setting Framework for evaluating the issues in this paper.

Summary of staff recommendations

8. Applying Step 1 described in paragraph 5(a), staff consider that no standard-setting actions are required under the NFP Standard-Setting Framework and Due Process Framework to address any issues raised in Sections 1–10. Staff recommend the Board considers the 'control of assets' issue in Section 11 as part of the Board's NFP Conceptual Framework project.

9. Applying Step 2 described in paragraph 5(b), staff recommend reiterating existing accounting requirements in the Basis for Conclusions section of the forthcoming FVM ED regarding the issues in the following sections of the paper.

Section	Staff recommendation
Section 1: Distinguishing obsolescence from depreciation	Reiteration of the statement in AASB 13 para. B9 that obsolescence is different from depreciation.
Section 2: Defaulting to straight-line method of depreciation	Reiteration of the requirements in AASB 116 *Property, Plant and Equipment* paras. 60 and 62 to apply the depreciation method that most closely reflects the expected pattern of consumption of the asset's future economic benefits.

Section	Staff recommendation
Section 3: Description of accumulated obsolescence	A comment explaining why using a term other than ‘accumulated depreciation’ to describe accumulated obsolescence would not be a breach of AASB 116.

Section 1: Distinguishing obsolescence from depreciation

Guidance requested

10. Two Panel members commented that guidance is needed to differentiate the concept of physical deterioration as either:

    (a) obsolescence, which is a deduction from an asset’s measurement under the cost approach in AASB 13 paras. B8–B9; or

    (b) depreciation under AASB 116 *Property, Plant and Equipment*.

11. They commented that many valuations seem to only use depreciation expense (based on useful life and remaining useful life) to determine an asset’s current replacement cost under the cost approach in AASB 13, and effectively ignore the difference between accounting depreciation and obsolescence. This is despite the statement in AASB 13 para. B9 that “Obsolescence … is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives).” [emphasis added]

12. One of the Panel members requests the Board to consider clarifying in Accounting Standards that treating obsolescence for fair value measurements the same as depreciation expense is a breach of AASB 13 because it is inconsistent with:

    (a) AASB 13 para. 11 – that fair value measurements take into account characteristics of an asset that market participants would take into account, including, for example, the condition and location of the asset, and any restrictions on the sale or use of the asset; and

    (b) AASB 13 para. B9 – as quoted in paragraph 11 above that obsolescence and depreciation are conceptually different.

13. One of the Panel members argues that depreciation is not part of a fair value measurement process. Depreciation is considered in the periods in which the asset is not subject to remeasurement.

Staff analysis

14. Staff do not consider this issue to be an NFP-specific issue. Staff note that AASB 13 para. B9 states clearly that obsolescence is broader than depreciation for financial reporting purposes.

Staff conclusion

15. Staff consider that this is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance, because the issue is not NFP-specific and there is no flaw in Accounting Standards. Therefore, no standard-setting action is needed.

Questions for Board members

Q1: Do Board members agree with the staff conclusion to take no standard-setting action for the distinction between obsolescence and depreciation?

Q2: If Board members disagree with the staff conclusion, which process would you propose?

Section 2: Defaulting to straight-line method of depreciation

Guidance requested

16. A Panel member requested guidance in Accounting Standards on two related issues:

    (a) **Issue 1:** Entities should not simply default to using the straight-line method of depreciation because it is the easiest method to apply. The Panel member is of the view that an asset's depreciation charge should commensurate with the expected reduction in an asset's fair value arising from the passage of time (including the effects of changes in condition, which can be non-linear). The Panel member is of the view that it should not be assumed that the asset has a constant depreciation rate; and

    (b) **Issue 2:** Because an asset may not have a constant depreciation rate, it is a misconception that, upon revaluation using the cost approach (which factors in obsolescence), the same amount of depreciation expense is calculated regardless of whether:

        (i) the asset's gross replacement cost (i.e. before deducting obsolescence) is allocated to the asset's total useful life; or

        (ii) the asset's revalued carrying amount (i.e. replacement cost less accumulated obsolescence) is allocated over the asset's remaining useful life.

17. Regarding Issue 2, some people may consider the amounts in paragraphs 16(b)(i) and (ii) are equivalent due to their view that there is a linear relationship between an asset's replacement cost and the asset's depreciation rate. However, the Panel member argued that often there is not a linear relationship between an asset's replacement cost and depreciation. This is because the asset's gross replacement cost is limited to the effect of the change in the price of the new modern equivalent asset; whereas, there may be other factors affecting the asset's depreciation (e.g. changes in condition).

Staff analysis

18. Staff note that Issue 1 is not an NFP-specific issue. Since AASB 116 paras. 60 and 62 specify clearly the requirement for an entity to apply to each depreciable asset the depreciation method that reflects most closely the expected pattern of consumption of the asset's future economic benefits, there does not appear to be a flaw in Accounting Standards, which are principles-based.

19. Regarding Issue 2, staff agree that, in principle, if the market factors affecting the gross replacement cost of an asset are different from the factors affecting depreciation, it is likely that the amount of depreciation calculated under the gross approach and the net approach would be different. In informal outreach activities with valuers, staff have heard different views about whether there would be sufficient information to measure a non-linear relationship between the asset's replacement cost and depreciation expense.

20. Staff consider that this issue also is not NFP-specific. For example, it might be encountered by mining companies revaluing specialised equipment to fair value using the cost approach, or by any for-profit entity measuring the fair value of specialised assets in accounting for a business combination. Staff consider that this issue falls within the domain of the valuation profession rather than guidance in Accounting Standards.

Staff conclusion

21. Staff consider that Issue 1 and Issue 2 are not justifiable circumstances under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because the issues are not NFP-specific and there does not appear to be a flaw in Accounting Standards. Therefore, no standard-setting action is needed in relation to either issue.

22. Staff are not aware that Issue 2 is causing financial statements to inadequately reflect the objectives and qualitative characteristics of financial reporting or not reflect economic reality.

Questions for Board members

Q3: Do Board members agree with the staff conclusion to take no standard-setting action for the request to state in Accounting Standards that entities should not simply default to using the straight-line method of depreciation?

Q4: If Board members disagree with the staff conclusion, which process would you propose?

Section 3: Description of accumulated obsolescence

Guidance requested

23. AASB 116 para. 35 allows two approaches, a 'gross approach' and a 'net approach', for an entity to recognise changes in an asset's revalued amount. Under AASB 116 para. 35(a) (the gross approach), the gross carrying amount and the accumulated depreciation amount are restated proportionately.

24. A Panel member requested guidance on whether, under the gross approach in AASB 116 para. 35(a), a better description than 'accumulated depreciation' can be used to denote the amount of obsolescence deducted from the gross carrying amount.

25. The Panel member noted that many public sector entities use the gross approach in AASB 116 para. 35(a).

Staff analysis

26. Staff note that this issue is not NFP-specific. It is relevant for assets measured using the cost approach in AASB 13.

27. Staff observe that:

    (a) AASB 13 does not require disclosure of 'accumulated obsolescence';

    (b) AASB 116 para. 73(d) requires disclosure, for each class of property, plant and equipment (PPE), of the gross carrying amount and accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

    (c) Para. 8 of AASB 101 *Presentation of Financial Statements* permits the use of other terms to describe specified totals as long as the meaning is clear. AASB 101 paras. 55 and 85 require an entity to present additional line items, headings and subtotals in the statement of comprehensive income or statement of financial position where such presentation is relevant to understanding the entity's financial position or financial performance.

28. Although the references to AASB 101 noted in paragraph 27(c) are specific to permitting the addition of other subtotals or line items in the statement of comprehensive income or statement of financial position, staff consider that the principles can be applied more generally to disclosures. In addition, staff observe that AASB 101 para. 112(c) requires an entity's disclosure notes to "provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them."

Staff conclusion

29. Staff consider that this issue is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because this issue is not NFP-specific and there does not appear to be a flaw in Accounting Standards. Therefore, no standard-setting action is needed.

Questions for Board members Q5: Do Board members agree with the staff conclusion to take no standard-setting action regarding whether a better description than 'accumulated depreciation' can be used to denote the amount of obsolescence deducted from the gross carrying amount of an asset? Q6: If Board members disagree with the staff conclusion, which process would you propose?

Section 4: Change in an asset's estimated remaining service potential

Guidance requested

30. A Panel member questioned whether, for an asset measured under the cost approach in AASB 13, a change in an asset's estimated remaining service potential in the specific circumstance described in paragraph 31 would be regarded as:

(a) a change in an asset's valuation, and the effect of the change should be recognised at a point in time (at the measurement date) in accordance with AASB 116 paras. 39–Aus39.1; or

(b) a change in the asset's useful life, and the effect of the change should be accounted for prospectively throughout the asset's remaining useful life in accordance with AASB 116 para. 51 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* para. 38.

31. The specific circumstance described by the Panel member is a change in an asset's estimated remaining service potential arising from:

(a) a change in management's intentions resulting in deferral of the replacement of an asset (i.e. the period during which the asset is expected to be used by the entity has increased); and

(b) that is not due to a change in the asset's conditions or market factors associated with obsolescence or impairment.

32. The Panel member indicated that such a change in an asset's estimated remaining service potential described in paragraph 31 would increase the fair value (reducing physical obsolescence) and the useful life of the asset.

Staff analysis

33. Under AASB 116 para. 35 and AASB 13 para. B9, a change in estimated obsolescence is part of a remeasurement of an asset, rather than part of the allocation of depreciation over the asset's useful life. An allocation of depreciation is not part of a fair value measurement. The effect of the change in an asset's valuation is recognised at the measurement date in accordance with AASB 116 paras. 39–Aus39.1.

34. Staff note that a change in an asset's useful life – i.e. a change in the period during which an entity expects to use the asset – may not have a direct correlation with the asset's fair value. This is because fair value is based on what a market participant is willing to pay for an asset.

35. Staff consider that it will depend on the circumstances whether an extension of an asset's estimated service potential indicates:

(a) a previous over-estimate of accumulated obsolescence (to be adjusted as a cumulative catch-up adjustment as part of a change in a fair value estimate under the cost approach);

(b) that accumulated obsolescence was not over-estimated previously, and the extension of estimated useful life relates entirely to future periods; or

(c) a combination of (a) and (b), that is, a previous over-estimate of accumulated obsolescence that is less than pro rata with the change in estimated useful life.

36. In each of (a)–(c) above, the objective is to estimate the effect, if any, on the accumulated obsolescence of the asset that a market participant would estimate in pricing the asset.

37. Staff consider that, for an asset measured under the revaluation model in AASB 116, a change in the asset's estimated remaining service potential is treated as a change in useful life (and accounted for prospectively as a change in accounting estimate in accordance with AASB 116 para. 51 and AASB 108 para. 38) only in periods between revaluations, where:

(a) the asset is revalued on a cyclical basis, as permitted by para. 34 of AASB 116; and

(b) such a change does not cause the carrying amount of the asset to be materially different from the asset's fair value.

38. Where a change in the asset's estimated remaining service potential is estimated to cause the asset's carrying amount to be materially different from its fair value, AASB 116 paras. 31–36 require the asset (and asset class to which it belongs) to be revalued. In such a case, the accounting treatment would be in line with that described in paragraph 33.

Staff conclusion

39. Staff consider that the issue is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because the issue is not NFP-specific and there does not appear to be a flaw in Accounting Standards. Therefore, no standard-setting action is needed.

Questions for Board members

Q7: Do Board members agree with the staff conclusion to take no standard-setting action regarding whether the effect of a change in an asset's estimated remaining useful life should be recognised at a point in time or allocated over the asset's remaining useful life?

Q8: If Board members disagree with the staff conclusion, which process would you propose?

Section 5: Adjusting for additional functionality in the modern equivalent asset, under the cost approach

Guidance requested

40. In relation to consideration of the cost of a modern equivalent asset to estimate the current replacement cost of a less-modern asset under the cost approach in AASB 13, a Panel member:

(a) stated that AASB 13 deals inadequately with the modern equivalent asset having more features (e.g. higher-standard fire systems) and therefore having a higher replacement cost than the asset subject to fair value measurement; and

(b) requested guidance on how to measure the adjustment for the difference in cost between the service levels provided by such a modern equivalent asset and the asset being measured (which is a less-modern asset).

41. The Panel member argued that, when a modern equivalent asset has greater utility than the asset being measured, the replacement cost of the asset subject to measurement should be measured at a lower value (compared with the replacement cost of the modern equivalent asset) to reflect the functionality that does not exist in the asset.

42. The Panel member is concerned that it might be challenging to measure the necessary adjustment between the two replacement costs when current cost data is unavailable for the level of service of assets possessing outdated technology, design or materials.

Staff analysis

43. Staff agree with the Panel member's view in paragraph 41. An entity should measure the fair value of the asset it possesses, not that of a superior replacement, as noted in the requirement in AASB 13 para. B9 to consider functional (technological) obsolescence under the cost approach.

44. In relation to paragraph 40(b), staff observe that the IASB did not include illustrative guidance on this matter. Implicit in IFRS 13 is a view that determining adjustments to the prices of modern equivalent reference assets is an application issue beyond the scope of IFRS. In the IASB's Report on its Post-implementation Review of IFRS 13 (December 2018), the IASB noted that many respondents asked it to develop additional guidance on the application of judgement regarding particular circumstances, and it decided not to develop additional guidance because, amongst other reasons:

    (a) "the requirements are principle-based, and there will always be a need for the exercise of judgement in making those assessments; and

    (b) the challenges raised are detailed valuation assessments and an accounting standard-setter may not be best placed to provide guidance in this area" (page 16).

45. The NZASB Standard PBE IPSAS 17 *Property, Plant and Equipment* includes useful guidance on the sources ('forms') of functional obsolescence for which the current replacement cost of a modern equivalent asset would be adjusted in measuring the current replacement cost of the asset subject to measurement (PBE IPSAS 17 para. AG14), but does not provide guidance on determination of such adjustments.

46. In relation to the concern raised by the Panel member noted in paragraph 42 that current cost data might be unavailable for the level of service of less-modern assets, staff consider that, in exercising judgement in application of the cost approach, the entity might use the current reproduction cost of the asset's service capacity as the best estimate of the asset's service level. Staff consider that an asset's reproduction cost could be estimated if there is insufficient information about the difference between the asset and its modern equivalent.

Staff conclusion

47. Staff consider that this issue is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because:

    (a) the application issues raised are not matters of accounting principle but, instead, detailed valuation assessments; and

    (b) the requested guidance would not relate to NFP-specific issues, and the IASB has decided not to provide additional guidance.

    Therefore, no standard-setting action is needed.

Questions for Board members

Q9: Do Board members agree with the staff conclusion to take no standard-setting action regarding how to measure the adjustment for the difference in cost between the service levels provided by a modern equivalent asset and the asset being measured?

Q10: If Board members disagree with the staff conclusion, which process would you propose?

Section 6: Treatment of damage versus loss of assets

Guidance requested

48. A Panel member requested guidance on two related issues:

(a) how to account for the adjustment when an asset is derecognised (e.g. destroyed through flood damage); and

(b) how to account for the adjustment when an asset is impaired but not derecognised (e.g. damaged but not lost).

49. Specifically, the Panel member requested guidance on whether the debit entry should be an expense or against any available revaluation surplus.

50. The Panel member expressed concerns on three levels:

(a) inconsistency between recognition in profit or loss, or revaluation surplus, depending on whether it arises from a derecognition event or an impairment without derecognition;

(b) diversity exists in practice arising from derecognition of an asset that has previously been revalued (and therefore has a credit revaluation reserve balance). In particular:

(i) some entities recognise an expense even if there is a revaluation surplus in respect of the asset; while

(ii) other entities debit the asset revaluation reserve and then recognise no gain or loss on disposal (derecognition) of the asset; and

(c) depending on the unit of account adopted for identifying separate assets, incurring damage might be treated as an entire loss of an asset or an impairment – with, consequently, different treatment of the debit entry.

Staff analysis

51. Regarding paragraphs 49 and 50(a)−(b), staff observe that Accounting Standards are clear:

(a) AASB 136 *Impairment of Assets* para. 12(e) identifies physical damage of an asset as an internal indication of impairment. That is, physical damage without derecognition is an indication of an impairment loss. Under AASB 136 paras. 60–Aus61.1, an impairment loss is recognised by debiting revaluation surplus to the extent of an existing credit balance in revaluation surplus;

(b) in contrast, if total loss of an asset occurs and it is therefore derecognised, under AASB 116 para. 68 the derecognition loss is recognised as an expense. In this regard, AASB 116 para. 67 states that an item of PPE shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal; and

(c) under AASB 116 para. 41, an entity may elect to transfer the revaluation surplus included in equity in respect of an item of PPE directly to retained earnings (i.e. through other comprehensive income) when the asset is derecognised. Some of that surplus may be transferred while the asset is used by the entity.

52. In addition, regarding paragraph 50(a), if impairment events precede a derecognition event, an entity would recognise those preceding impairments in accordance with AASB 136 paras. 60–Aus61.1 by first debiting revaluation surplus. Staff observe that this issue relates to the differences between AASB 136 and AASB 116, and not diversity in practice regarding the derecognition of an asset.

53. Regarding paragraph 50(c), staff concur that, depending on the unit of account adopted for identifying separate assets, incurring damage might be treated as entire loss of an asset or an impairment of an asset. However, staff consider that this potential for different treatments is

an inevitable consequence of the difference between AASB 116 para. 68 and AASB 136 paras. 60–Aus61.1. Even if guidance was issued on the unit of account to use when accounting for impairment or derecognition of an asset, different treatments would occur when total or partial damage occurs to the specified unit of account.

Staff conclusion

54. Staff consider that the issue relating to the three concerns noted in paragraph 50 is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because this issue is not NFP-specific.

55. Staff have not heard from other stakeholders that this is a key area of concern for them that would cause financial statements of NFP public sector entities to inadequately reflect the objectives and qualitative characteristics of financial reporting or not reflect economic reality. Therefore, no standard-setting action is needed.

Questions for Board members

Q11: Do Board members agree with the staff conclusion to take no standard-setting action regarding the treatment of damage versus loss of assets?

Q12: If Board members disagree with the staff conclusion, which process would you propose?

Section 7: Allocating the fair value of groups of assets measured under the income approach to component assets

Guidance requested

56. A Panel member noted that when measuring the fair value of PPE held by for-profit public sector entities, the unit of account for the ‘present value of net cash inflows’ under the income approach in AASB 13 is more aggregated than the units of account needed for separate calculation of depreciation of components with different useful lives.

57. The Panel member requests guidance on how to allocate the fair value measured under the income approach for an asset group (measured as the present value of net cash inflows) to individual assets/components in order to determine depreciation. In this regard, the Panel member expressed concern that, whilst current replacement costs (CRCs) are sometimes used to determine the value of individual assets/components of an asset group, valuations of CRC:

(a) are very expensive to obtain; and

(b) usually determine a value exceeding the fair value of the asset group determined under the income approach, requiring an allocation method to be used to remove that excess.

58. The Panel member requests guidance on:

(a) a more economical way to reliably measure fair values at the level of disaggregation needed for subsequent depreciation purposes;

(b) how to measure an asset’s fair value when replacement of an asset/component with a modern equivalent asset is too expensive to be economic. Specifically, the member requests guidance on how to determine the fair value of an asset/component that is a disaggregation of an asset group at which fair value is measured using the income approach (i.e. the smallest group of assets for which net cash inflows are estimated), if current replacement cost exceeds the amount a market participant buyer would be prepared to pay for the asset/component; and

(c) how to allocate the present value of net cash inflows for an asset group to individual assets/components when the present value calculation under the income approach includes future capital expenditure and consequential cash flows for assets that do not currently exist. The Panel member commented that, under the income approach, expenditure on capital expansion and consequential effects on the entity's future cash flows would be taken into account when measuring the fair value of a group of assets.

Staff analysis

59. Staff note that, for groups of assets the fair value of which is (or would be) measured under the income approach, the current replacement costs of components of those groups might need to be estimated if:

(a) the component assets are carried under the revaluation model using cyclical revaluations as permitted by para. 34 of AASB 116 and, in accordance with para. 31 of AASB 116, depreciation of the revalued assets is recognised in periods between revaluations; or

(b) at initial recognition of component assets, the cost of those assets needs to be measured using its fair value because the assets were acquired in an exchange of non-monetary assets (under AASB 116 para. 26), and the cost approach is the most appropriate method of estimating those assets' fair value.

60. In relation to paragraph 59(a), staff observe that AASB 116 para. 31 requires assets carried under the revaluation model to be revalued with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value. If costs of accounting separately for assets with dissimilar useful lives are high, it might be more practical to revalue the assets (at the higher level of aggregation for the cash-generating unit) with sufficient frequency that material depreciation does not arise between revaluations, thus obviating the need to determine current replacement costs.

61. Regarding the Panel member's request noted in paragraph 58(a), staff note that various public sector entities maintain asset registers and asset condition records at a highly granular level for asset management purposes. Having those asset management records would assist in reducing the cost required to obtain the current replacement costs of individual component assets. However, staff acknowledge that those asset management records might not address the points noted in paragraphs 58(b)−(c): the necessity and difficulty (including inherent arbitrariness) of allocating a shortfall of the present value of a cash-generating unit to individual assets with a higher aggregate current replacement cost.

62. Staff observe that the situation in paragraph 59(b) should arise only infrequently.

Staff conclusion

63. Staff consider that this issue is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because:

(a) this issue is not considered NFP-specific; and

(b) allocation of the fair value of an asset group to individual asset/components would be considered a detailed valuation assessment and an accounting standard-setter may not be best placed to provide guidance in this area.

Therefore, no standard-setting action is needed.

Questions for Board members

Q13: Do Board members agree with the staff conclusion to take no standard-setting action regarding how to allocate the fair value of an asset group measured using the income approach to individual assets/components?

Q14: If Board members disagree with the staff conclusion, which process would you propose?

Section 8: Treatment of deferred maintenance expenditure

Guidance requested

64. A Panel member requested guidance on:

(a) whether an adjustment to reduce an asset's fair value should be made when an entity defers scheduled maintenance of an asset; and

(b) if so, how to account for the subsequent expenditure when the maintenance is performed. Specifically, should the subsequent expenditure be:

(i) capitalised into the asset's carrying amount before measuring the amount of any revaluation increase/decrease (the net approach); or

(ii) recognising both an expense and a corresponding revaluation increase (the gross approach).

Staff analysis

65. In respect of paragraph 64(a), staff consider that the effect of deferring maintenance would depend on the facts and circumstances, but typically would reduce an asset's fair value (albeit potentially to an immaterial extent in some cases). This is because it would affect the assumptions market participants would use when pricing the asset, compared with an asset that is well maintained.

66. Therefore, staff consider that the implications of deferring maintenance of an asset for fair value measurement would be encompassed by the principles in AASB 13.

67. Staff also consider that the expenditure subsequently incurred when the maintenance is performed should be recognised as an expense (under the 'gross approach' to accounting for maintenance of revalued assets) because:

(a) AASB 116 para. 12 specifies that costs of day-to-day servicing of an item of PPE, including repairs and maintenance, are recognised in profit or loss as incurred. This requirement is not dependent on which measurement model is adopted after recognition of an asset; and

(b) fair value is defined as an exit price, and an asset's exit price does not necessarily change commensurately with costs incurred in respect of maintenance of the asset. Therefore, it would be reasonable to consider that the deferred maintenance outlay should be recognised as an expense and its beneficial effect on the asset's fair value recognised as part of a revaluation increase.

68. Staff note that AASB 116 paras. 12–14 provide guidance on whether an expenditure is capitalised as part of an asset. For example, if an entity deferred replacing a separate part of an asset, the replacement expenditure would be capitalised when it is made, in accordance with AASB 116 para. 13.

Staff conclusion

69. Staff consider that this issue is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because this issue is not NFP-specific. Staff have not heard from other stakeholders that this is a key area of concern for them that would cause financial statements of NFP public sector entities to inadequately reflect the objectives and qualitative characteristics of financial reporting or not reflect economic reality.

70. In addition, there does not appear to be a flaw in Accounting Standards. Staff consider that it is clear that, under AASB 116 para. 12, expenditures on deferred maintenance are (consistent with the treatment of any expenditures on maintenance) recognised as an expense (under the

'gross approach' to accounting for maintenance for revalued assets). Therefore, no standard-setting action is needed.

> **Questions for Board members**
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> Q15: Do Board members agree with the staff conclusion to take no standard-setting action regarding whether an adjustment for deferred maintenance should be made when measuring an asset's fair value, and how to account for the subsequent expenditure when the deferred maintenance is performed?
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> Q16: If Board members disagree with the staff conclusion, which process would you propose?

Section 9: Unit of account for an infrastructure asset

Guidance requested

71. A Panel member requested guidance on the unit of account for an infrastructure asset, such as infrastructure held by a for-profit electricity distributor, in the absence of AASB 116 specifying the unit of account. He remarked that, although this issue may be argued to relate to AASB 116 and not AASB 13, it is a common issue in the public sector.

72. The Panel member noted that:

    (a) some entities treat each identifiable part (e.g. pole, substation, segment of powerlines) as a separate asset and use this as the unit of account;

    (b) some entities treat the group of items of PPE that generates the cash flows as the unit of account; and

    (c) the entire for-profit entity would be used as the unit of account for impairment testing purposes.

Staff analysis

73. AASB 116 para. 9 states that: "This Standard does not prescribe the unit of measure for recognition, that is, what constitutes an item of PPE. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances."

74. Staff note that the IPSASB is undertaking a project including measurement of infrastructure assets. It is not expected that the IPSASB would provide guidance prescribing the unit of measure (para. 9 of IPSASB ED 78 *Property, Plant and Equipment*).

Staff conclusion

75. Staff consider that this issue is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because this issue is not NFP-specific. Although the Panel member considers this to be a common issue in the public sector, staff have not heard from other stakeholders that this is a key area of concern for them that would cause financial statements of NFP public sector entities to inadequately reflect the objectives and qualitative characteristics of financial reporting or not reflect economic reality. Therefore, no standard-setting action is needed.

76. In addition, consistent with AASB 116 para. 9, staff consider that judgement is required in applying the recognition criteria to an entity's specific circumstances.

> **Questions for Board members**
>
> Q17: Do Board members agree with the staff conclusion to take no standard-setting action regarding the unit of account for an infrastructure asset?
>
> Q18: If Board members disagree with the staff conclusion, which process would you propose?

Section 10: Curable and incurable obsolescence

Guidance requested

77. International Valuation Standards IVS 105 *Valuation Approaches and Methods*, para. 80.5, states that [emphasis added]:

> "Physical obsolescence can be measured in two different ways:
>
> (a) curable physical obsolescence, i.e. the cost to fix/cure the obsolescence, or
>
> (b) incurable physical obsolescence which considers the asset's age, <u>expected total and remaining life where the adjustment for physical obsolescence is equivalent to the proportion of the expected total life consumed</u>. Total expected life may be expressed in any reasonable way, including expected life in years, mileage, units produced, etc"

78. However, when measuring an asset's fair value under the cost approach, AASB 13 paras. B8–B9 do not distinguish curable and incurable obsolescence.

79. Two Panel members have requested the Board to consider adding guidance in Australian Accounting Standards to clarify how the curable and incurable parts of an asset's obsolescence should be considered when applying the cost approach under AASB 13. There are two issues related to this request:

   (a) **Issue 1:** Both Panel members requested guidance (one to adopt; the other to clarify whether to apply) principles similar to those in IVS 105 para. 80.5, under which:

      (i) the curable part of obsolescence is measured as the current cost of returning an asset to as-new condition (which may change over time in a non-linear fashion); in effect, it is accounted for as a separate part of the asset renewed to as-new condition (i.e. replaced) from time to time; and

      (ii) incurable physical obsolescence (equivalent to the long-life part) is measured based on the proportion of the expected total life consumed; only the incurable part of obsolescence should be affected by an asset's useful life; and

   (b) **Issue 2:** One Panel member requested guidance on the use of 'condition curves' often applied by valuers, in which physical obsolescence occurs at an increasing rate over the useful life of either an asset or a separate component of an asset.

80. The Panel member who raised Issue 2 in paragraph 79(b) commented that the greatest issue with the application of the cost approach by public sector entities is divergent practices in the measurement of obsolescence, and more specifically incurable physical obsolescence and 'condition curves' developed by valuers. The Panel member said that the use of different condition curves in different valuations is causing some significant changes in valuations (and subsequent obsolescence charges).

81. One of the Panel members also requested guidance to assist determinations of whether a part of an asset is curable or incurable.

Staff analysis

82. Staff understand that the requests for guidance are related neither to:

   (a) the determination of useful lives of assets under AASB 116; nor

   (b) accounting for depreciation of revalued assets in periods between revaluations, in accordance with para. 31 of AASB 116, where depreciable assets are revalued on a cyclical basis as permitted by para. 34 of AASB 116.

Issue 1

83. Under paras. B8–B9 in AASB 13, when measuring the replacement cost of a non-financial asset under the cost approach, an entity takes obsolescence into account because a newer asset will possess superior service capacity to that of a partially consumed asset held by the entity. There might be situations in which a part of obsolescence is 'curable' (i.e. it can be reversed by repairing or renovating a renewable component of the asset to as-new condition).

84. Staff do not have practical experience in performing valuations necessary to form a view on this issue. Based on basic conceptual understanding of curable and incurable obsolescence, it would appear that the approach in IVS 105 para. 80.5 (quoted in paragraph 77) is not inconsistent with the requirement in AASB 116 para. 13 to account separately for parts with dissimilar useful lives to those of the larger assets to which they belong.

85. Staff are of the view that, as costs are incurred to return an asset to as-new condition, they reduce the amount of the deduction from the asset's value for curable obsolescence. This has a similar effect to capitalising those costs as parts with different useful lives to those of the larger assets to which they belong (which have a longer useful life). AASB 116 para. 13 requires material parts with useful lives dissimilar to those of the larger assets to which they belong to be accounted for separately, not only in recognising depreciation over the appropriate useful lives (i.e. the useful lives of those parts), but also in:

(a) derecognising parts fully consumed; and

(b) capitalising the replacement expenditures that effectively renew those parts.

86. Staff consider that it would be inappropriate to provide specific guidance on curable and incurable obsolescence in Accounting Standards under the NFP Standard-Setting Framework. This is because:

(a) there does not appear to be a flaw in either AASB 13 or the component approach to accounting for PPE in AASB 116, under which each part of an item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately (AASB 116 para. 43);

(b) there does not appear to be an NFP-specific aspect to this issue, and the IASB did not provide guidance on curable and incurable obsolescence following its post-implementation review of IFRS 13;

(c) this issue is, arguably, related to detailed valuation assessments of an asset rather than an indication of a need for additional guidance in Accounting Standards;

(d) issuing guidance on this issue would create a risk of getting mired in arguments about identifying separate components of assets in general under Australian Accounting Standards. AASB 116 para. 9 states that: "This Standard does not prescribe the unit of measure for recognition, that is, what constitutes an item of property, plant and equipment." Staff consider that, although that statement in AASB 116 para. 9 refers to recognition in particular, accounting for parts of assets involves identifying the appropriate unit of account, which also affects depreciation and derecognition; and

(e) applying the principles of AASB 116 should not impede the application of International Valuation Standards to the measurement of curable and incurable obsolescence.

Issue 2

87. For similar reasons to those in paragraph 86, staff consider that it would not be appropriate to develop NFP-specific guidance on Issue 2, namely, the use of 'condition curves' by some valuers (in which physical obsolescence is measured as occurring at an increasing rate over an asset's useful life), noted in paragraph 80. That is, staff consider that:

(a) there does not appear to be an NFP-specific aspect to this issue; and

(b) this issue is related to detailed valuation assessments, and therefore an accounting standard-setter may not be best placed to provide guidance in this area. Accounting Standards are not a means of enforcing consistent estimation of the pattern of obsolescence over time in the particular circumstances of each valuation.

Staff conclusion

88. Staff consider that the issue regarding the distinction between curable and incurable obsolescence is not a justifiable circumstance under the NFP Standard-Setting Framework that would require NFP-specific amendments or guidance because this is not an NFP-specific issue, and the IASB did not provide guidance on curable and incurable obsolescence. Therefore, no standard-setting action is needed.

Questions for Board members

Q19: Do Board members agree with the staff conclusion to take no standard-setting action for the distinction between curable and incurable obsolescence, and how those forms of obsolescence should be measured in fair value measurements?

Q20: If Board members disagree with the staff conclusion, which process would you propose?

Section 11: Control of assets

Guidance requested

89. A Panel member requested guidance on a public-sector-specific issue of whether a public sector entity (e.g. a local government) controls an asset if a State or Territory Government or the Commonwealth Government has the power to take any or all of the following actions:

(a) close the asset (e.g. a road);

(b) sell the asset without the consent of the entity and receive the proceeds from the sale;

(c) restrict access to the asset; and

(d) allow another party to use the asset for other purposes.

Staff analysis

90. Staff observe that:

(a) this issue does not relate to the requirements of AASB 13;

(b) AASB 116 and its IPSAS equivalent (IPSAS 17) do not refer to control. Discussion of control of an asset in AASB pronouncements and IPSASB pronouncements is confined to Conceptual Frameworks; and

(c) guidance on control of an asset was not included in former Australian Accounting Standards: AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* or AAS 31 *Financial Reporting by Governments*. Despite this, the AASB received few requests for guidance on identifying when an entity controls an economic resource.[2]

[2] The latest conceptual definition of an 'asset' promulgated by the IASB is "a present economic resource controlled by the entity as a result of past events" (adopted in *AASB Conceptual Framework for Financial Reporting* (May 2019) para. 4.3): under that conceptual thinking, the subject of control is the economic resource, not the asset.

91. In relation to paragraph 90(b), the AASB Revised Conceptual Framework (RCF) provides more useful conceptual guidance on control of an economic resource than the *Framework for the Preparation and Presentation of Financial Statements* (NFP Conceptual Framework). Although the RCF does not yet apply to NFP entities, it is particularly helpful because, unlike the NFP Conceptual Framework, it focuses on identifying the rights that compose an entire item of property and distinguishing the rights controlled by different entities with different interests in the item of property (RCF para. 4.19: see below).

92. Under the RCF, paras. 4.4, 4.19 and 4.20:

> 4.4 An economic resource is a right that has the potential to produce economic benefits.
>
> 4.19 Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts. For example, an entity may control a proportionate share in a property without controlling the rights arising from ownership of the entire property. In such cases, the entity's asset is the share in the property, which it controls, not the rights arising from ownership of the entire property, which it does not control.
>
> 4.20 An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource.

93. In addition, the RCF para. 4.6 identifies the following rights that might compose an economic resource: rights to receive cash, rights to use a physical object and rights to benefit from the residual value of a leased object.

Staff recommendation

94. Staff consider this issue does not indicate a need for additional guidance on the fair value principles in AASB 13.

95. Staff consider that this issue of clarifying public-sector-specific aspects of control of an asset (or an economic resource) is best addressed as part of the Board's NFP Conceptual Framework project. Therefore, staff recommend that considering whether to add issues surrounding control of an economic resource in the public sector to the Board's standard-setting agenda should occur within that project.

Questions for Board members

Q21: Do Board members agree with the staff recommendation in paragraph 95 that the Board should consider whether to add the issue of control of an economic resource in the public sector to the Board's standard-setting agenda as part of the Board's NFP Conceptual Framework project?

Q22: If Board members disagree with the staff recommendation, which process would you propose?

Section 12: Draft Basis for Conclusions to be added to FVM ED

96. Staff are of the view that, under the NFP Standard-Setting Framework, no standard-setting action (i.e. modification through 'Aus' paragraphs, or mandatory implementation guidance or non-mandatory illustrative examples) is needed to address the issues raised in Sections 1–10. Staff are not aware of these issues resulting in significant and widespread diversity in the NFP public sector.

97. Following Step 2 described in paragraph 5(b), in this section, staff considered whether, for any of those issues, NFP public sector stakeholders might benefit from:

(a) understanding the rationale for not taking standard-setting action; or

(b) reiteration of the requirements in existing pronouncements.

98. Staff note that one way of achieving the two benefits in paragraph 97 is to publish a tentative agenda decision (rejection statement).[3] However, staff consider that those benefits could also be achieved by including the Board's reasons for not undertaking standard-setting actions on certain issues in the Basis for Conclusions (BC) section of the forthcoming FVM ED.

99. Staff consider that the two benefits noted in paragraph 97 would be achieved more efficiently, and stakeholders would be provided with a better overall view of asset measurement issues, by discussing this paper's issues in the FVM ED's BC paragraphs rather than in a tentative agenda decision. Therefore, in the staff analysis below, staff recommend adding BC paragraphs regarding certain issues.

Staff analysis

100. The following table includes the staff analysis of whether comments should be included in the BC section of the FVM ED.

Section	Staff analysis
Section 1: Distinguishing obsolescence from depreciation	Since the cost approach is being applied across NFP public sector entities, it would be beneficial to reiterate in the BC that AASB 13 para. B9 states that obsolescence is broader than depreciation for financial reporting purposes.
Section 2: Defaulting to straight-line method of depreciation	Since many significant assets of NFP public sector entities are depreciable assets, it would be beneficial to remind stakeholders in the BC about the requirement in AASB 116 paras. 60 and 62 to apply the depreciation method that reflects most closely the expected pattern of consumption of the asset's future economic benefits.
Section 3: Description of accumulated obsolescence	Because of the widespread application of the cost approach in AASB 13 by NFP public sector entities, there is merit in documenting in the BC that using a term other than 'accumulated depreciation' to describe accumulated obsolescence would not be a breach of AASB 116.
Section 4: Change in an asset's estimated remaining service potential	No comment in the BC is warranted. The implications of a change in remaining service potential for measuring the fair value of an asset under the cost approach will depend on the circumstances. Staff consider that the role of principles-based Standards and related BCs does not include providing detailed guidance on the various outcomes that can arise.

3 Para. 7.2.7 of the *AASB Due Process Framework for Setting Standards* states that if the Board decides not to add a topic to the agenda, the Board may decide to formally report the decision as a Board Agenda Decision (sometimes called an agenda rejection statement).

Section	Staff analysis
Section 5: Adjusting for additional functionality in the modern equivalent asset, under the cost approach	No comment in the BC is warranted. The issue is not specific to NFP entities, and the IASB has not provided additional guidance.
Section 6: Treatment of damage versus loss of assets	No comment in the BC is warranted. This issue relates to the differences between AASB 136 and AASB 116 and there is not widespread concern that diversity in practice exists regarding the impairment or derecognition of an asset. Even if guidance was issued on the unit of account to use when accounting for impairment or derecognition of an asset, staff consider that different treatments would occur when total or partial damage occurs to the specified unit of account.
Section 7: Allocating the fair value of groups of assets measured under the income approach to component assets	No comment in the BC is warranted. Allocation of the fair value of an asset group to individual asset/components involves detailed valuation assessments and does not warrant additional discussion in the ED's BC paragraphs.
Section 8: Treatment of deferred maintenance expenditure	No comment in the BC is warranted. There does not appear to be a flaw in Accounting Standards. It is clear that, under AASB 116 para. 12, expenditures on deferred maintenance are recognised as an expense.
Section 9: Unit of account for an infrastructure asset	No comment in the BC is warranted. As stated in AASB 116 para. 9, Accounting Standards do not prescribe the unit of measure for recognition, and judgement is required in applying the recognition criteria to an entity's specific circumstances.
Section 10: Curable and incurable obsolescence	No comment in the BC is warranted. This is not an NFP-specific issue, and the IASB did not specify the distinction between curable and incurable obsolescence. Staff consider that it would not be appropriate for the BC paragraphs to refer to the guidance in IVS 105, which would risk being interpreted as an endorsement of that guidance (which is beyond the role of an accounting standard-setter).

Questions for Board members

Q23: Do Board members agree with the staff recommendation in paragraphs 98–99 that where the Board decides to document its reasons for not taking standard-setting actions on an issue discussed in Sections 1–10, it should do so in the BC to the FVM ED? If not, which approach do Board members prefer?

Q24: Do Board members agree with the assessment in the above table that only the issues discussed in Sections 1–3 would warrant adding comments to the BC to the FVM ED? Are there any other issues addressed in this paper that Board members would like to address in the BC to the FVM ED?

Staff recommendation

101. Subject to the Board's decisions on Questions 23 and 24 above, staff have drafted the following BC paragraphs for the Board's consideration.

Other measurement issues

BC1 Stakeholders requested the Board to consider issuing guidance regarding the following:

(a) Distinguishing obsolescence from depreciation;

(b) Method of depreciation;

(c) Description of accumulated obsolescence;

(d) Treatment of changes in an asset's estimated remaining service potential;

(e) Adjusting for additional functionality in the modern equivalent asset, under the cost approach;

(f) Treatment of damage of an asset;

(g) Allocating the fair value of groups of assets measured under the income approach to component assets;

(h) Treatment of deferred maintenance expenditure;

(i) Unit of account for an infrastructure asset; and

(j) Curable and incurable obsolescence.

BC2 The Board noted that none of the issues in BC1(a)–(i) is a justifiable circumstance under the *AASB Not-for-Profit Entity Standard-Setting Framework* that would require not-for-profit-specific amendments or guidance. This is because:

(a) those issues are not specific to not-for-profit entities and the IASB did not provide any further guidance on those issues; and

(b) there does not appear to be any gap or other flaw in existing pronouncements that would cause financial statements of not-for-profit public sector entities to inadequately reflect the objectives and qualitative characteristics of financial reporting or not reflect economic reality.

BC3 The Board considered that some of those issues relate to detailed valuation assessments, and specific guidance on them should not be included in Accounting Standards. The Board also considered that the treatment of many of the issues would depend on facts and circumstances, and the role of principles-based Standards does not include providing detailed guidance about the various outcomes that can arise.

BC4 In addition, the Board noted that existing AASB pronouncements include guidance addressing some of those issues listed in BC1(a)–(i). These items of guidance are noted in paragraphs BC5–BC7.

Distinguishing obsolescence from depreciation

BC5 Since AASB 13 para. B9 specifies that obsolescence for fair value measurement under the cost approach is different from depreciation under AASB 116, the Board decided that additional guidance is not warranted. AASB 13 para. B9 states that: "Obsolescence … is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives)."

Method of depreciation

BC6 Regarding stakeholders' comments that many entities are applying the straight-line depreciation method by default, the Board is of the view that AASB 116 addresses this issue adequately. AASB 116 para. 60 states that: "The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity."

Description used in disclosures of accumulated obsolescence

BC7 In relation to the requirement in AASB 116 para. 73(d) to disclose accumulated depreciation for each class of property, plant and equipment, stakeholders have asked whether another description than 'accumulated depreciation' is permitted to disclose the amount of accumulated obsolescence in financial statements. In accordance with the principle in AASB 101 *Presentation of Financial Statements* that the use of other terms, line items or subtotals in financial statements is permitted where such presentation is relevant to the understanding of the entity's financial position or financial performance, the Board considered that using a term other than 'accumulated depreciation' to describe accumulated obsolescence would not be a breach of AASB 116.

Question for Board members

Q25: Do Board members have any comments regarding the content of the draft BC paragraphs?

Appendix: Summary of relevant paragraphs in the Board's NFP Standard-Setting Framework

A1. Staff note the following paragraphs in the NFP Standard-Setting Framework are particularly helpful in assessing whether standard-setting actions are needed for the issues raised in this paper:

(a) Paragraph 29 states: "The AASB disagreeing with the IASB's treatment is unlikely to provide a good reason, in and of itself, for changing the requirement in an IFRS Standard."; and

(b) Paragraph 30 notes justifiable circumstances for NFP-specific Standards, amendments, guidance or examples may include:

(i) financial reporting inadequately reflecting the objectives and qualitative characteristics of financial reporting as set out in the *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework);

(ii) issues specific to the NFP sector are of such prevalence and magnitude that NFP entities' financial statements do not reflect economic reality;

(iii) NFP-specific application issues resulting from current practice issues, differences in the accountability or regulatory framework, governance or financial management differences or alignment with other financial frameworks;

(iv) an assessment indicates that the costs of preparing and disclosing information outweigh the benefits to users (e.g. the prevalence and magnitude of transactions in the NFP sector resulting in the IASB's considerations of undue cost or effort for for-profit entities not being valid for entities in the NFP sector); and

(v) IFRS Standards are not compatible with existing NFP-specific Standards or guidance.