ED320 Sub 1

Dear Sir/Madam,

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

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

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

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

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

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

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

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

and

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

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15 June 2022

Comments on ED320

During the meeting of the special project team held yesterday it was requested that members of the project team provide any comments direct to the AASB. As requested, please find my comments below.

Overall, I am in full agreement with the principles outlined in the existing F paragraphs and associated BC paragraphs. However, I believe that the current wording of the F paragraphs needs to be strengthened to make better reference to some of the key issues covered in the BC paragraphs.

Furthermore, that there is a need for some additional illustrative example guidance to ensure consistent interpretation.

My reasoning is that because the wording in F paragraphs is based around principles only I believe that unless there is more specific clarification in the F paragraphs (as noted in the BC paragraphs) that the various inconsistent interpretations adopted in different jurisdictions will continue.

If the discussions held by the special project team have taught us anything, it is that different jurisdictions tend to cherry pick various BC paragraphs and also ignore them when interpretating standards. Unless the F paragraphs are specific, this behaviour of cherry picking and ignoring will no doubt continue and we will still be left with significant inconsistency in interpretation and adopted practices.

I would strongly recommend the contents of BC62 be added to the F paragraphs to ensure consistent application and interpretation in the various jurisdictions –

> *BC62 Consistent with the IASB's analysis in the illustrative example quoted in paragraph BC61, the Board noted that the fair value measurement of an asset:*
>
> *(a) would not take into account a restriction that is specific to the entity holding the asset, ie would not transfer to market participants in a hypothetical sale transaction (eg the restriction on the use of land in the IASB's example); but*
>
> *(b) would take into account the effect of restrictions that would transfer to market participants in a hypothetical sale transaction (eg the easement restriction in the IASB's example).*

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As noted in yesterday's meeting, the roundtable discussions indicated a need for improved guidance around the determination of Current Replacement Cost.

While the board has noted in the BC paragraphs that the standard does not need to change (references to AASB13.11, B9 and the pattern of consumption for depreciation) the reality is that these are the areas which are widely misinterpreted and deliver the most significant non-compliance and inconsistency. As a result, I believe it is critical that relevant F paragraphs are included to clarify –

- The DRC approach is non-compliant with AASB13 CRC approach as the adjustment to Replacement Cost needs to be based on an allowance for obsolescence based on the key characteristics relevant to market participants and <u>not</u> an estimate of accumulated depreciation expense based on useful life and remaining useful life. Apart from general obsolescence, these are listed in paragraph 11 as well condition, location and restrictions on sale or use.
- Irrespective of the valuation technique (market, income or cost), to ensure the correct calculation of depreciation expense, each asset needs to be disaggregated into the different 'parts' consistent with the AASB May 2015 decision with the carrying amount of each part each part depreciated down to the residual value over their respective remaining useful life
- The Fair Value of the asset needs to be determined first and then depreciated over its RUL using a pattern of consumption consistent with the expected loss of relative value of the asset. Ie. If due to expected changes in the key characteristics indicate a 10% drop in relative value over the next five years and then 20% over the following five years, the adopted depreciation rate to apply currently should be 2% as it matches the expected pattern of consumption of the future economic benefit. The relevant depreciation rate and useful life then be reviewed annually as required by AASB116
- The straight-line method of depreciation should only be adopted if it matches the expected pattern of consumption of the future economic benefit.

Yours faithfully
APV Valuers and Asset Management

David Edgerton FCPA
Director

Contact: Steve Mitsas
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Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
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VIC 8007 Australia

Dear Dr Kendall

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

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* (ED 320). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

At the outset, HoTARAC would like to thank the Board and its staff for their considerable effort in bringing together the key stakeholders across the public sector to dialogue and understand the key public sector challenges and perspectives related to the implementation of fair value reporting for non-current assets. We particularly appreciate the constructive and engaging consultation approach taken by the Board before finalising the ED.

Overall, HoTARAC is highly supportive of the ED and considers it provides highly useful additional implementation guidance for application by not-for-profit (NFP) public sector entities which will facilitate greater consistency in the assumptions and components included in fair value reporting.

Having said that, we would like to note the different requirements in AASB 116 *Property, Plant and Equipment*, AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and AASB 13 *Fair Value Measurement* and propose that the AASB prioritise a review for alignment to ensure consistency in the approach for capitalisation and fair value measurement. Adopting different methodologies/approaches/components across the individual accounting standards have caused significant differences between initial measurement at cost in the first year and the measurement of fair value using revaluation model in subsequent years.

The attachment to this letter sets out HoTARAC's response to the specific and general matters for comment.

If you have any queries regarding HoTARAC's comments, please contact Steve Mitsas from the Department of Treasury and Finance in Victoria by email to steve.mitsas@dtf.vic.gov.au.

Yours sincerely

Stewart Walters

CHAIR

Heads of Treasuries Accounting and Reporting Advisory Committee

ENCLOSED:

HoTARAC Comments to the AASB on ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

Scope

1	Do you consider that the proposed authoritative implementation guidance should be applicable also to NFP entities in the private sector? Please provide reasons to support your view.

No comments

2	Do you agree with the AASB's conclusion that determining appropriate measurement techniques for measuring the fair value of land and improvements on land subject to public-sector-specific legal restrictions is best regarded as relating to detailed valuation assessments and should not be mandated in Australian Accounting Standards (see paragraphs BC164–BC170)? Please provide reasons to support your view.

Agree

Market participant assumptions

3 In respect of the assumptions used in measuring the fair value of a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, do you agree with the proposals in paragraphs F4–F7 that:

(a) if the market selling price of an identical asset is directly observable, that price (which incorporates implicitly the assumptions that other market participants would use when pricing the asset, negating the need to identify those assumptions) should be used to estimate the fair value of the asset; and

Agree.

(b) if the market selling price of an identical asset is not directly observable, the entity would need to explicitly estimate the pricing assumptions that other market participants would use. In this case, to maximise the use of relevant observable inputs and minimise the use of unobservable inputs:

(i) if all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity should use those assumptions in measuring the fair value of the asset; or

(ii) if not all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity would need to develop unobservable inputs in measuring the fair value of the asset. When applying paragraph 89 to develop unobservable inputs, the entity should use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data; or

(iii) if no relevant information about other market participant assumptions is reasonably available, the entity should use its own assumptions in measuring the fair value of the asset?

Please provide reasons to support your view.

Agree.

4 Paragraph F8 provides examples of assets for which: (a) market selling prices of an identical or a comparable asset are unlikely to be directly observable; and (b) no relevant information about different assumptions of other market participants is likely to be reasonably available. Do you agree with the examples in paragraph F8? Please provide reasons to support your view

Agree.

Highest and best use

5 Do you agree with the proposal in paragraphs F9–F11 that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13 paragraph 29 that the 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? Please provide reasons to support your view.

Disagree.

While we agree that this seems to reflect the requirements of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* that when an asset has been flagged as 'ready for sale' and potential buyers have been identified, the valuation method should change to reflect the new highest and best use of the assets. However, we note that the current wording suggests that the point of recognition of the new and highest best use, is when management is committed to make a change, rather than when the asset is ready for sale. We note that sales of government assets frequently have an extended lead time and are subject to legislative and regulatory steps. Such sales are generally subject to a confidential tender process, and any early disclosure may risk potential information leakage. We do not believe that the highest and best use has changed until the asset is ready for sale in the condition that management intended. We recommend amending the threshold to align with conditions set out in AASB 5 ,for consistency.

6 Do you agree with the example in paragraph F10 of steps that might, in some circumstances of a particular entity, need to be completed before the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or use the asset for an alternative purpose, namely: (a) relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide; (b) initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and (c) development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose? Please provide reasons to support your view

Agree.

We note that the existence of the above indicators alone should not be taken as management commitment. Feasibility studies and due diligence should be completed prior to management's commitment to sell the assets. However, as noted in our response to Question 5, management's commitment to sell the asset is considered too premature and should not be the indicator to when the highest and best use of the asset has changed. We propose alignment to the conditions sets out in AASB 5 before the change in the highest and best use should be reflected.

7 Do you agree with the proposal in paragraph F12 that an entity is only required to assess whether a use of the asset is physically possible, legally permissible and financially feasible in accordance with paragraph 28 when (per paragraph F9) the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted? Please provide reasons to support your view.

Agree.

However, we note that for public-sector-specific legal restrictions on prices that can be charged (BC69-70), ED320 states that "legal restrictions imposed on the prices that a not-for-profit public sector entity may charge for using an asset not held primarily for its ability to generate net cash inflows that would not be transferred to market participants are not considered in fair value measurement of the asset". This may have unintended consequences for the valuation of dual-purpose assets, i.e. assets which can theoretically be used by both public and private sectors, such as hospitals. We recommend further clarification is provided.

8 Do you agree with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use' concept described in AASB 13 paragraph 28(c), namely that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, a use is financially feasible if market participants (including NFP public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services? Please provide reasons to support your view.

Agree.

Application of the cost approach

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

9 Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location?

Agree.

10 Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? Please provide reasons to support your view.

Agree.

Any cost that is directly attributable to the acquiring or constructing of the asset consistent with the requirements of AASB 116 *Property, Plant and Equipment* (para 16 and 17) should form part of the current replacement cost.

11 Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (i.e. a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Please provide reasons to support your view.

Agree, except for heritage and cultural assets. Given the unique and specialised nature of heritage and cultural assets, it will not be possible to adopt a modern equivalent or replica asset, as the replacement cost will need to follow the specific requirements to restore such assets.

Further, some members are of the view that for heritage buildings held, at least some in part, because of their heritage significance, current cost means the cost of replicating the existing asset. This is because the replication cost reflects the valuation of the heritage value or quality embodied in the asset. Replication (reproduction cost) would assume reconstruction with modern materials, but sympathetic with the original heritage design and structure, to the extent that this is feasible. For example, if a heritage building was a prestige construction with an imposing entry, high ceilings, elaborate sandstone carvings, open verandas and large carved cedar doors, the cost of replication would reflect that design and structure.

12 Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.

Agree.

13 Do you agree with the proposal in paragraph F15(b) that, when estimating the current replacement cost of the subject asset, an entity should determine, based on the circumstances of the subject asset, whether the following costs would (among other costs) need to be incurred upon the hypothetical acquisition or construction of that asset at the measurement date: (a) unavoidable costs of removal and disposal of unwanted existing structures on land; and (b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs? Please provide reasons to support your view.

Agree.

All unavoidable costs of removal and disposal of unwanted existing structures on land should be included in the current replacement cost of the asset as a part of the land cost. However, some HoTARAC members would like the Board to clarify when these costs should form part of fair value of the structure to be built on the land, and when they should form part of fair value of the land (ED320 BC99-106 and Illustrative example 1).

Based on the example provided in paragraph BC100, to assess the inclusion of the costs of removal and disposal of unwanted existing structures of land, an entity would consider whether a market participant buyer would be able to acquire a vacant site in the area surrounding the existing location. Where there is a suitable vacant site available, the market participant is unlikely to incur removal and disposal costs, otherwise, the removal and disposal costs should be included in the current replacement cost of the asset. Some HoTARAC members are of the view that that it will be challenging to make assumptions on what structures on the existing location will be required to be removed or demolished. Consequently, it may be difficult to justify the inclusion or exclusion of these costs in the fair value and how they are valued.

Some members are of the view that including the costs of removal and disposal of any unwanted existing structures on land as per paragraph F15(b)(i) contradicts with paragraph F14. As per paragraph F14(a), the asset will be replaced in its existing location even if it would be feasible to replace the asset in a cheaper location. In essence, the asset should be replaced on the vacant land as paragraph F14(b) assumes the asset does not exist, therefore making 'removal / disposal' costs irrelevant. Further, the members raise concerns on the cost/benefit impact of including any disruption costs that would hypothetically be incurred, according to paragraph F15(b)(ii). The uniqueness of the disruption cost of individual assets will require revaluation of each asset of the portfolio, which could be costly.

14 Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity? Please provide reasons to support your view.

Please note that Illustrative Examples 1 and 2 illustrate the application of paragraphs F14 and F15

Agree.

One issue of particular concern to HoTARAC is the treatment of funding costs when determining values using replacement cost. There are different views across HoTARAC about the treatment of funding costs in asset valuation. This is likely due to different perceptions and experiences about the costs that a market participant would consider in determining exchange value.

In turn, a key determinant might be <u>the entity's expected delivery model and how assets will be replaced, because this could determine the relevant market from which market participant assumptions should be drawn.</u> For example, depending on the delivery model, a market participant (i.e., a public sector not-for-profit entity) may incur funding costs in relation to an asset construction through either a centralised funding agency or private sector financing arrangement (e.g., a PPP consortium finances the upfront construction cost of an asset and on-charges its funding costs to the Government). As public funds (whether borrowed or not) are distributed through different channels to fund various public sector projects, costs of the debt raising in a centralised funding arrangement may bear little connection with an individual asset construction. As such, it would be unlikely that a market participant will identify and price-in such funding cost when valuing an infrastructure asset. However, in some PPP models, the practice is that the private sector entity will incur funding costs while constructing the asset and will factor this into the contract price in a way that it becomes a market assumption.

While diverse arrangements make it challenging to mandate inclusion or exclusion of funding costs in every circumstance, we strongly advocate the amendments include guidance to provide greater clarity about application factors that could be considered.

Economic obsolescence

15 Do you agree with the proposal in paragraph F16 that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity? Please provide reasons to support your view.

Agree.

16 Do you agree with the proposal in paragraph F17 and the example in paragraph F18 that economic obsolescence should not be identified for any 'surplus capacity' of an asset that is necessary for stand-by or safety purposes (e.g. to deal with contingencies), even if it seldom or never is actively utilised? Please provide reasons to support your view.

Agree.

Application of the proposed implementation guidance

17 Do you agree with the proposal in paragraph AusC6.1 that the proposed authoritative implementation guidance set out in Appendix F should be applied prospectively? Please provide reasons to support your view.

Agree.

18 If you agree with prospective application in Question 17, do you consider that it would be appropriate for the AASB to provide an option for an NFP public sector entity to elect to restate comparative information as if the authoritative implementation guidance in Appendix F had been applied from a preceding period? Please provide reasons to support your view.

Agree.

19 If you consider it appropriate for the AASB to provide an option for an NFP public sector entity to restate comparative information (see Question 18), do you consider it appropriate that, if an entity elects to restate comparative information, it should be required to disclose the amount of the adjustment for each financial statement line item affected, as if the implementation guidance had: (a) always been applied (i.e. full retrospective application in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors); or (b) been applied from a specific preceding period, for example, the beginning of the immediately preceding period presented in the financial statements (i.e. modified retrospective application)? If so, please specify which preceding period you think would be appropriate. Please provide reasons to support your view.

(b). modified retrospective application.

20 Further to Question 19, do you consider it would be appropriate for such optional restatements, if elected, to be required for all affected assets, except to the extent it is impracticable for the entity to determine either the period-specific effects of the implementation guidance or the cumulative effect of the change? Please provide reasons to support your view.

Agree.

21 Do you agree that the proposed authoritative implementation guidance set out in Appendix F should be applied for annual periods beginning on or after 1 January 2024, with earlier application permitted? Please provide reasons to support your view.

Agree.

General matters for comment

The AASB would also particularly value comments on the following general matters:

22 Whether the AASB Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

Agree.

23 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

We note that the Australian Bureau of Statistics is planning to make a separate submission to the AASB on this ED for consideration and support alignment wherever possible.

24 Whether, overall, the proposals would result in financial statements that would be useful to users?

Agree, subject to the recommendations HoTARAC has made in this submission.

25 Whether the proposals are in the best interests of the Australian economy?

Agree, subject to the recommendations HoTARAC has made in this submission.

26 Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

We expect that there may be auditing, and assurance concerns due to the interpretation and application of valuation principles and techniques used which may vary due to the judgement involved.

27 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Please refer to the above responses.

Building a better
working world

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24 June 2022

AASB Exposure Draft 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

Dear Dr Kendall

Ernst & Young is pleased to comment on the above Exposure Draft. We welcome the opportunity to contribute to the future of financial reporting in Australia.

We consider that the AASB should provide specific guidance to enable entities to determine appropriate measurement techniques, including which valuation approach to use, for measuring the fair value of assets not held primarily for their ability to generate net cash inflows. We do not believe that the current proposals in ED 320 go far enough to help reduce diversity in practice in this area.

Please refer to our detailed responses on the above and other questions raised in the ED in the appendix to this letter.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Kalaselvi Kandiah on (03) 9288 8034.

Yours sincerely

Ernst + Young

Ernst & Young

Appendix A

Responses to Specific matters for comment

Scope

Response to Q1:

We consider that the issues addressed in the proposed guidance could also be relevant to NFP private sector entities. The AASB could conduct more research to understand if there are any specific fair value measurement issues affecting NFP private sector entities and address them in this guidance, if any, before making the guidance applicable to NFP private sector entities. As most NFP private sector entities subsequently measure their non-financial assets, such as property, plant and equipment at historical carrying amounts rather than at fair value (unlike most NFP public sector entities as mentioned in BC2 of this ED), it is likely that NFP private sector entities may not have implementation issues related to AASB 13 to the same extent as the NFP public sector.

Response to Q2:

We do not agree with the AASB's proposals. We consider that the AASB should provide specific guidance to enable entities to determine appropriate measurement techniques for measuring the fair value of assets not held primarily for their ability to generate net cash inflows including the fair value of land and improvements on land subject to public-sector-specific legal restrictions.

As acknowledged in this ED, there is diversity in valuing these types of assets, specifically in the approach used to fair value these assets. There also appears to be significant ambiguity in the manner in which the quantum of discount is applied when fair valuing these assets using the market approach. We also understand that there is uncertainty amongst the public sector for how to deal with restrictions imposed on these assets including those that are self-imposed. We don't think the AASB's proposals go far enough to address these concerns

We understand that providing guidance on how to determine the quantum of discount to apply when valuing these assets using the market approach might prove difficult, particularly as any discounting needs to factor in the nature of the restrictions in place as well as the benefits derived from using the asset for public service. Given the difficulty and subjectivity involved in providing guidance on discounting and including service capacity when applying the market approach to these types of assets, we believe the more objective guidance would be to require NFP public sector entities to fair value non-financial assets not held primarily for their ability to generate net cash inflows using a cost approach (example current replacement cost) if there are no identical or comparable assets with market price available for the asset in its current use.

Requiring the use of the cost approach would be consistent with the requirement in AASB 1059 to measure the fair value of a service concession asset that the grantor uses for its service potential to achieve public service objectives (rather than to generate net cash inflows) using the cost approach. The Board concluded (as in BC66 of AASB 1059) that only the cost approach to measure the fair value of the service concession asset was appropriate as the asset's capacity or service potential is used to achieve public service objectives irrespective of whether the cost of the asset will be recovered by the expected cash flows that the asset may generate. We do not see why the Board could not require a similar approach for other public sector assets that are held for their service capacity or service potential

If the AASB decides to require the use of the cost approach for fair valuing assets not held primarily for their ability to generate net cash inflows including the fair value of land and improvements on land subject to public-sector-specific legal restrictions, we think that the disclosures which are currently excluded for NFP public sector entities, as in paragraph Aus93.1, should be required when using the cost approach.

If the AASB decides not to require the cost approach for measuring the fair value of assets not held primarily for their ability to generate net cash inflows including the fair value of land and improvements on land subject to public-sector-specific legal restrictions (if there are no comparable assets with an observable market price or market information), the AASB should provide guidance on the following when applying the market approach to value these assets:

- how to consider restrictions put in place by the entity or its controlling entity on the asset
- how the likelihood that the restrictions might be lifted should be considered in the valuation
- how to incorporate the benefits obtained by the public due to the public sector service provided by the asset into the valuation
- how to determine the quantum of discount to be applied (if any) on restricted assets including when the service capacity/service potential of the asset has not diminished since acquisition of the asset

Market participant assumptions – Questions 3 and 4

Overall response to Q3 and Q4:

We find the guidance on market participant assumptions (paragraphs F3-F7) does not add anything beyond the existing AASB 13 guidance. As such, we do not consider it necessary to have these paragraphs.

Some of the examples in paragraph F8 (e.g., prisons) may not be relevant as some prisons are owned by private entities. Also, government regularly sells defence weapon platforms and as such these assets would have observable market price/information.

Highest and best use - Questions 5, 6, 7 and 8

We agree with the presumption that the asset's current use is its highest and best use. However, the guidance on when the presumption can be rebutted could go further by having an example that deals with a sale or change in use of the asset, which has several milestones to be met before the sale or change in use can take place because this is prevalent in the public sector.

In addition, the Board should consider whether a commitment to sell the asset is too early to rebut the presumption, given the approval processes required in government before an asset can be sold. Perhaps the presumption should be rebutted only when a formal approval has been made.

We agree with the proposed guidance in paragraph F13 that the use of the asset is financially feasible if market participants (including not-for-profit public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services. However, in this circumstance, we question whether there would be an impairment on the asset –on subsequent measurement if its service capacity has not diminished. For example, if a piece of land was acquired at fair value for its service capacity to be converted into a park for public benefit and that service capacity is still intact, then there should not be an impairment on the land on subsequent measurement simply because the land has is now used as park. However, some would argue that since the land is now restricted to be used as a park, there should be a discount applied to the land when fair valuing it on subsequent measurement using the market approach. This appears to contradict the presumption that the land being used as a park is its highest and best use and when it was acquired for this use, it was financially feasible for this use due to its service capacity, which has not changed. We consider that the cost approach would be most appropriate method when fair valuing such assets – see our response to Q2.

Application of the cost approach – Questions 9 – 16

We generally agree with the proposed guidance in the ED (paragraphs F14-F18) on how the cost approach should be applied to measure the fair value of a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows.

In addition, when considering the entity's expected manner of replacement in the ordinary course of operations, consideration should be given to the procurement method that would normally be adopted for such an asset by the public sector entity. For example, if it is common to replace a hospital using a service concession approach rather than a design and construct (D&C) approach, then costs related to such a procurement method should be considered in fair valuing the asset under the cost approach and not the potentially cheaper D&C approach.

In respect of finance costs, we note the Board's decision not to mandate a particular treatment for not-for-profit entities applying AASB 13. However, as the purpose of proposals in the ED are to provide guidance, we consider that the Board should bring forward the guidance which is currently in BC130-134 into the final Standard rather than leave it in the BCs.

Application of the proposed implementation guidance – Questions 17 – 21

We agree with the proposal that the guidance should be applied prospectively with early application permitted. We also agree with the application date being for annual periods beginning on or after 1 January 2024, subject to the proposals being finalised and the Standard issued in 2022.

We do not agree to providing an option for an NFP public sector entity to elect to restate comparative information as if the authoritative implementation guidance in Appendix F had been applied from a preceding period. Given that the proposals are in relation to measuring fair value, hindsight could be used to estimate the inputs to the measurement, and this would not be appropriate.

Responses to General matters for comment

22. **Whether the *AASB Not-for-Profit Entity Standard-Setting Framework* have been applied appropriately in developing the proposals in this Exposure Draft?**

    We do not think that the proposals go far enough to help address the current diversity in practice in fair valuing assets not held primarily for their ability to generate net cash inflows including the fair value of land and improvements on land subject to public-sector-specific legal restriction

23. **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?**

    No.

24. **Whether, overall, the proposals would result in financial statements that would be useful to users.**

    As the current diversity in practice is not adequately addressed, we do not think that the current proposed guidance go far enough to help remove diversity except for the proposed guidance on application of the cost approach.

25. **Whether the proposals are in the best interests of the Australian economy?**

    Refer to our responses above.

26. **Whether the proposals would create any auditing or assurance challenges?**

    Refer to our responses to Q2 and Questions 9 – 16

    The lack of specific guidance in the proposals (as articulated in our response to Q2) to enable entities to determine appropriate measurement techniques, including which measurement approach to use, for measuring the fair value of assets not held primarily for their ability to generate net cash inflows including the fair value of land and improvements on land subject to public-sector-specific legal restrictions, would mean that challenging estimates (eg quantum of discounts and how to incorporate public sector service benefits) would continue to be applied in valuations. In addition, public sector entities are likely to deal with restrictions differently and when using the cost approach, there might be some practical difficulties in estimating some costs when assuming that the asset presently does not exist. This would mean that the current diversity would continue to exist.

27. **Costs and benefits of the requirements relative to current requirements, whether quantitative (financial or non-financial) or qualitative?**

    Refer to our responses above.

Blacktown
City Council

27 June 2022

Australian Accounting Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

standard@aasb.gov.au

Dear Sir/Madam

Submission on draft ED320

Please find attached submission from Blacktown City Council regarding the draft ED320. We look forward to your consideration to our submission.

Should you have any questions please do not hesitate to contact our Chief Financial Officer, Steven Harris, on 9839 6460 or steven.harris@blacktown.nsw.gov.au

Yours faithfully

Wayne Rogers
Director Corporate Services and Assistant
Chief Executive Officer

Blacktown City Council

Draft ED320 Submission

10 June 2022

Contents

Introduction

This submission has been prepared following the release of ED320 and the Australian Accounting Standards Board (AASB) request for feedback.

We note that the Exposure Draft proposes implementation guidance in respect of non-financial assets which are not held primarily for the purpose of generating net cash inflows, our feedback is in relation to:

a. the market participant assumptions to use in measuring the asset's fair value

b. the asset's highest and best use

c. the application of the cost approach if used to measure the asset's fair value.

We also note that, prior to the release of the Exposure Draft, many stakeholders provided feedback to the Australian Accounting Standards Board (AASB) regarding divergent practices by not-for-profit public sector entities in applying the principles in AASB 13 Fair Value Measurement in measuring the fair value of non-financial assets. In particular, those stakeholders asked the AASB to provide guidance on how to measure the fair value of non-financial assets not held primarily for their ability to generate net cash inflows.

As such, the goal of this Exposure Draft is to update AASB 13 Fair Value Measurement to remove any ambiguity, and that adopted practices should be consistent across the jurisdictions.

The Exposure Draft provides guidance on a range of issues. Our response is focussed on the valuation of community land for which the purpose of use is restricted by legislation, and which is covered to some extent in all 3 of the specific matters for comment requested by the AASB.

In regard to the valuation of community land, we **fully support** the guidance provided by ED320 which clarifies that the valuation of restricted assets:

As per the Basis for Conclusion BC62 in ED320:

a. would not take into account a restriction that is specific to the entity holding the asset, ie would not transfer to market participants in a hypothetical sale transaction (eg the restriction on the use of land in the IASB's example); but

b. would take into account the effect of restrictions that would transfer to market participants in a hypothetical sale transaction (eg the easement restriction in the IASB's example).

While the ED320 provides guidance in paragraphs BC62, we are however concerned that the wording of paragraph F9 is quite broad:

"Paragraph 29 states that an entity's current use of a non-financial asset is presumed to be its highest and best use,…. the presumption that the asset's current use is its highest and best use is 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"

Therefore, F9 is open to interpretation such that the value is to be discounted unless the asset is marked for sale and does not specifically reference some key points covered by the Basis for Conclusion; BC61 and BC62 in ED320. As such we are concerned that the Audit Office of NSW may continue to enforce accounting policies in accordance to their interpretation of AASB13 Fair Value Measurement as described in paragraph F9 in ED320. If so, such practices would result in extremely detrimental consequences for council in the coming years.

We would therefore recommend paragraph F being further strengthened by including the contents of BC61 and BC62 in the F9 – F13 (Highest and best use) so that there is no ambiguity about the need to only take into account the restrictions that would pass from the seller to the hypothetical buyer.

Council's position

In the past Council has raised with the Audit Office of NSW our view that no additional discounts should be applied to land simply because it is to be used for a community purpose. However, the Audit Office of NSW has adopted an extremely rigid view, which is not being applied by Queensland and South Australian government authorities, that all land must be discounted. As a result of this rigid stance, Council has previously been required by the Audit Office of NSW to write-down the value of land by over $420 million despite the value being recorded at the transactional value.

Of great concern to Council is that we will acquire approximately $1.5 billion of community land over the next 15 years. This is funded from Section 7.11 developer contributions to support the rapid growth of the North West Growth Area (NWGA). In the past, discounting mandated by the Audit Office of NSW was accounted for by debiting our Asset Revaluation Reserve. However, unless the Audit Office of NSW alter their interpretation, we will need to write-off approximately $1.35 billion of these purchases to the financial statements over the next 10 years, which will impact Council's capacity to borrow and meet our long term financial plan targets.

We believe that the interpretation adopted by the Audit Office of NSW of discounting land value for community purposes based on Valuer General's discounted valuation would now be technically incorrect. However, our previous discussions with the Audit Office of NSW do not provide us with certainty it will change its stance based on the existing content of the F paragraphs. Unless any ambiguity is removed, we are concerned that we will still be required to adopt accounting policies and practices which believe have misstated the truth of our financial performance.

We are concerned that unless the F paragraphs specifically cover the conclusions covered in the BC paragraphs and that these are supported by some specific illustrative examples, that the Audit Office of NSW will continue to disregard their contents and will retain a position requiring discounting.

We further acknowledge that the Australian Accounting Standards Board considers some aspects of AASB 13 Fair Value Measurement already being clear and not requiring further guidance. However, our experience is that despite the contents of the existing BCs, unless those specific issues are better referenced in the F paragraphs there is a very high risk that inconsistent application and interpretation will not change.

Example that highlights our concerns

Council is currently acquiring significant number of properties as community land to support the rapid growth of the North West Growth Area (NWGA). For the 2019/20 financial year Council acquired around $52.4 million of community and we project over the next 15 years we will acquire around a further $1.5 billion of community land. This land will be used to build the local infrastructure that will service over 250,000 new residents.

Council is nominated as the acquisition authority by the NSW Government through the Department of Planning and Environment's precinct planning process. Blacktown City Council has 12 of the 16 precincts in the NWGA, with more precincts for growth than any other council in NSW.

As the acquisition authority, Council must acquire land in accordance with the *Land Acquisition (Just Terms Compensation) Act 1991* (the Act). This means that we are required to pay market rates for all land purchased. The determination of appropriate market rates for each acquisition is obtained by an independent valuation from an accredited valuer, who will consider the highest and best use for the parcel of land, taking into account its underlying zoning, and other attributes such environmental and flooding constraints.

Land owners will engage their own valuer and between Council and the land owner's valuers market value is agreed. If the 2 parties cannot agree, the matter escalates to the Valuer General for determination of the market value. The Act allows the landowner to appeal the Valuer General's determination but Council, as the acquisition authority cannot appeal the amount. This consistently leads to overinflated prices for land and artificially sets a value of land for future purchases that is distorted.

For the 2019/20 financial year, we acquired land at an average rate of $450 per square metre. This varied from a low of $300 per square metre for R2 zoned land and up to $800 per square metre for R3 zoned land. In addition, we incur significant further costs relating to the obtaining of independent valuation advice, contamination advice and legal services. On a typical acquisition these costs can total around $20,000. This does not include the additional costs of technical reports such as hydrology, ecological or planning reports.

Despite spending significant amounts acquiring this land, the Audit Office of NSW has adopted the view that the recognised fair value of community land should be derived from discounting the value to take into account the purpose of the land acquisitioned and this valuation to be provided by the Valuer General.

When purchasing a piece of land for community purposes, once re-zoned it will be recorded based on the Valuer General's discounted valuation. On average the valuations have been discounted by approximately 90% from the market price. If the practice of discounting was to continue, over the next 15 years, given that we no longer have sufficient Asset Revaluation reserve remaining, we would need to write down $1.5 billion of acquisitions to $150 million and record an operating loss of $1.35 billion.

The Audit Office of NSW's insistence on a highly discounted value was not taken by Queensland Audit Office and Auditor General's Department of South Australia. Despite previously raising the issue with the Audit Office of NSW and pointing out the AASBs 2019 tentative decisions, the Audit Office of NSW has been unwavering in its requirements to apply discounts.

Recommendations

To ensure that there is no ambiguity and to ensure consistency across all jurisdictions we strongly recommend:

- the F9 – F13 paragraphs be enhanced to include the same content as set out in BC61.

  BC61, the Board noted that the fair value measurement of an asset:

  a. *would not take into account a restriction that is specific to the entity holding the asset, ie would not transfer to market participants in a hypothetical sale transaction (eg the restriction on the use of land in the IASB's example); but*

  b. *would take into account the effect of restrictions that would transfer to market participants in a hypothetical sale transaction (eg the easement restriction in the IASB's example).*

- The illustrative examples include 2 examples for community land which we believe should not be discounted but recorded at the market price paid or would be paid if council had to acquire it from a third-party. Specifically:
  - Land acquired at market value and converted to community land
  - Land contributed to Council as part of a development to be used for community benefit.

Should you have any questions on the information contained in this letter, please contact our Chief Financial Officer, Steven Harris on 02 9839 6460.

Dr. Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via submission portal: https://www.aasb.gov.au/current-projects/open-for-comment/

28 June 2022

Dear Keith,

RE: Exposure Draft 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

I am responding to your invitation to comment on Exposure Draft 320 on behalf of PwC.

We welcome the Board's proposal to address concerns raised by stakeholders in relation to the application of AASB 13 *Fair Value Measurement* (AASB 13) by not-for-profit public sector entities. We agree that many of the concepts in AASB 13 are challenging for not-for-profit public sector entities to apply given the unique nature and purpose of the assets held that are subject to valuation.

While many aspects of the proposals will not result in a change in practice, it is helpful to have clarity in the guidance to encourage consistent application. Overall, we agree with the Board that it is appropriate that the principles of AASB 13 be applied with respect to determining a market participant's perspective of fair value to the extent possible. However, it is challenging to fully apply this concept to public sector assets and thus, we agree with the practical reliefs that the Board has proposed. Specifically, we agree with the proposals with respect to:

- the ability to use own assumptions where market observable pricing for identical assets is not directly observable and relevant information about market participant assumptions is not reasonably available
- considering differences in service capacity and the inclusion of economic obsolescence as proposed
- the rebuttable presumption that current use is the highest and best use (HBU)
- the overarching principle that once only costs be included in current replacement cost ("once only" costs)

However, we consider that certain aspects of the proposals for HBU and once only costs could be refined to ensure they are able to be more consistently and reliably applied. We have also commented below with respect to the application of the proposals to the private sector.

1) Highest and Best Use:

In the situation where an asset is considered to be held for sale and the market participant would be able use the asset for a purpose other than delivering public services, we consider that the trigger for recharacterising the highest and best use of an asset should be better aligned to the criteria in AASB 5. These criteria in AASB 5 are well known and understood to preparers and financial statement users. It would be sensible to the users of the accounts to see disclosure and classification of an asset as held for sale at the same time as the fair value remeasurement for a change in the assessment of the asset's HBU. The indicators in paragraph F10 may lead to remeasurement prior to a true commitment being made and the highly probable criteria in AASB 5 being met. In practice, we have seen examples where disposals that may be considered to be committed under the proposals might change year on year. Therefore, the proposals as drafted may lead to additional time and efforts to manage and apply where the information may not be as relevant to the users if the plans were to change.

We do not consider that a change in HBU would occur in a situation where an asset is held for sale and the market participant would continue to use the asset for the same public purpose - i.e. in a privatisation, or a sale of an asset that was then subject to AASB 1059 accounting. Rather, the valuation methodology might be reconsidered.

If the criteria in AASB 5 are introduced, we acknowledge they would not be relevant in the situation where an asset's use or purpose changes for a reason other than sale. In this case, we consider that concepts similar to AASB 5 be provided such as that:

- it is highly probable that the use will change to a specified alternative use
- management of sufficient authority is committed to the plan
- required approvals have been obtained
- actions necessary to transition the asset indicate that it is unlikely that plans with change
- the change in use is expected to be completed within one year

Based on the above criteria, we would expect the remeasurement of the asset to occur prior to any change in classification in asset -- which typically arises when the change in use has occurred (i.e., change from property, plant and equipment to inventory or to investment property).

2) "Once-Only" Costs

Overall, we agree that when current replacement cost methodologies are used to measure fair value, once only costs should be considered. These costs are typically directly attributable costs of bringing the asset to its intended use and thus, we consider it reasonable that the valuation consistently considers that a market participant would have to take similar actions if they were to reconstruct the asset. While we appreciate that the capitalisation criteria in AASB 116 are not intended to be directly aligned to the market participant valuation principles in AASB 13, we do not consider it appropriate that public sector entities have significant impairments on their initial remeasurements where they have efficiently constructed an asset by incurring necessary costs.

However, as the proposals are written, we are concerned that the "starting point" from which once only costs should be identified is not clear - which may lead to increased diversity in practice.

Regarding the guidance within paragraph F14-F15 of the exposure draft, we have considered the different types of possible “once-only” costs and their impacts on different assets as noted below. It may be helpful that further Illustrative Examples are included to ensure greater consistency in application. Specifically:

- **Inherent cost of land**: These costs are related to earth works, remediation, formation work and costs of clearing of the land for construction. We consider that these costs should generally be capitalised into the cost of the land, which is a separate class of asset. Because land is typically valued using market pricing, we would not expect it is needed to further consider these costs. A market participant would be expected to consider land to have more value once these activities are undertaken and thus, they are inherently included in the market participant valuation. As such, where the land has been valued using a market approach, once only costs would typically not need to be further added.

- **Design and engineering costs**: These are clearly costs that a market participant would be required to incur again if they were constructing such an asset. Our understanding is that these costs are typically considered and included in a cost valuation by valuers today, which we would agree is appropriate.

- **Other less visible costs**: There are certain costs that are necessary to be incurred that are less visible to valuers and thus, may not be included in valuations today -- for example:
    - asbestos removal from an existing building
    - relocating power lines or “returned works” assets (i.e., utility assets) that are owned by another entity
    - remediating damage to footpaths/roads
    - constructing assets that are required to be given to a third party
    - demolition costs related to the compulsory acquisition of properties
    - borrowing costs

  While these costs are capitalised as a necessary cost of getting an asset to its intended use, they are not costs that valuers would currently always hypothesize when developing a cost valuation - leading to a possible change in practice. The proposals currently read that once-only costs are included if they would be incurred in a hypothetical construction of the subject asset. However, the “starting point” for determining the hypothetical construction is not clear. For example, should preparers consider the condition of the land and structures as they were when they commenced construction or consider a vacant property (with all of the above works essentially having already been prepared)? We consider the former approach more directly aligns with the conceptual approach of the replacement cost of the asset. However, where an asset was constructed years ago, we expect it would be cost prohibitive for preparers to recreate and maintain the records that are necessary to allow a valuer to provide an estimate of undertaking the same activities in current day dollars. As such, some practical relief may be required.

While companies may categorise their asset classes differently than that noted above, it is important that entities ensure that there is no “double-counting” of value for “once-only” costs if a mix of market and replacement cost valuation techniques are used.

3) Private sector considerations

With respect to the application of the guidance to private sector not-for-profit entities, we would recommend that it be available to them should they wish to adopt. However, further due process may be required should the requirements be made mandatory. Given the current focus of the guidance is public sector entities, we do not expect private not-for-profit organisations have fully considered and responded.

I would welcome the opportunity to discuss our firm's views at your convenience should you have questions.

Yours sincerely,

Erin Craike
Partner

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Dr Keith Kendall
Chair
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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.

  - 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

INSTITUTE OF PUBLIC ACCOUNTANTS®

29 June 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Dr Kendall

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

Thank you for the opportunity to comment on ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities.*

AASB 13 *Fair Value Measurement* is a principled based standard that can be complex to apply with divergent practices in the not-for-profit sector. ED 320 proposes to provide implementation guidance to address the divergent practices specifically for NFP public sector entities and seeks comments (in Question 1) on whether the guidance should be applicable for NFP private sector entities.

IPA's members predominately service small business or work in the small business and small and medium enterprise (SME) sectors, including those in the NFP private sector. Given ED 320 covers issues that are specific to the NFP public sector entities, we have confined our comments to the scope and overall observations of the ED in the event that the scope extends to that of the NFP private sector.

1. **Overall** – IPA supports the majority of the AASB's proposals in providing implementation guidance in applying the principles of AASB 13 in measuring the fair value of non-financial assets, noting the comments to the specific proposals in the paragraphs below.

2. **Scope** – the Basis of Conclusion provides the reasons for undertaking the fair value measurement project (ie ED 320) for the NFP public sector, which stems from stakeholder feedback/request on providing guidance. Whilst IPA acknowledges that the feedback may be predominately from the NFP public sector, we are of the view that the principles of fair value and any proposed guidance in their application should be consistent where possible in the NFP sector, irrespective of whether the entities are in the public or private sector. This would be consistent with AASB's standard setting policy of transaction neutrality (paragraph 23)[1] and

[1] Paragraph 23 of "AASB Not-for-Profit Entity Standard-Setting Framework"

> "Transaction neutrality means that like transactions and events are accounted for in a like manner by all types of entities, reflecting their economic substance, unless there is a justifiable reason not to do so. This Framework sets out circumstances where it may be appropriate to use a different approach for NFP entities versus for-profit entities ..."

obtaining the benefits of comparability within and across sectors (paragraph 19)[2]. Accordingly, it would be useful for the AASB to:

- Outline the rationale for why the proposed guidance have been confined to the NFP public sector and what the AASB's plans are for the provision of guidance to the NFP private sector.
- Consider, in the finalisation of the guidance, whether the proposed guidance in ED 320 can be equally applied to the NFP private sector and where that is not possible, what would the alternative accounting be and the reasons for the differences.

3. **Market participant assumptions** – whilst IPA supports the proposed guidance, we are of the view that care in the drafting of the guidance is required to avoid any unintended consequences of an entity being unable to apply the requirements and auditors to attest to their compliance. For example, the word "all" in paragraph F5 of when "if all relevant information about market participant assumptions" are available or not is too absolute and may be a difficult hurdle for an entity to comply. It would be more effective if the word "all" is replaced with "substantially" or "significantly".

4. **Highest and best use –** IPA supports guidance on when the presumption of the asset's current use is its 'highest and best' use (HBU) is rebutted. However, we do not agree with the proposals in paragraph F9 that the presumption is rebutted when, and only when, the appropriate level of the entity's management is committed at the measurement date to plan to sell the asset or to use the asset for an alternative purpose and the examples in paragraph F10 of when the appropriate level of management's commitment. We are of the view that management's commitment is too early in evidencing a change in the asset's HBU. We prefer the approach in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* in determining when an asset is classified as held for sale only if the asset is available for immediate sale and its sale must be highly probable.

5. **Application of the cost approach –** IPA supports additional guidance on the application of the cost approach. However, the guidance must be consistent with principles of the cost approach, being the current replacement cost (CRC) in AASB 13. We are of the view that the explicit nature of including or excluding certain costs in determining CRC in ED 320, are rules-based that may not align with the principles of CRC. That is, AASB 13 states that CRC:
   - "reflects the amount…required currently to replace the service capacity of an asset" (paragraph B8) and
   - "From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset…" (paragraph B10) and
   - "The price in the principal (or most advantageous) market used to measure the fair value of the asset … shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other Australian Accounting Standards. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability. (paragraph 25) and
   - Transaction costs do not include transport costs. If location is a characteristic of the asset (as might be the case, for example, for a commodity), the price in the principal (or most

[2] Paragraph 19 of "AASB Not-for-Profit Entity Standard-Setting Framework"

> To maintain confidence in the Australian economy (including the NFP sector), obtain the benefits of comparability within and across sectors, … and ensure the costs of complying with Australian Accounting Standards do not outweigh the benefits, this Framework ..."

advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market" (paragraph 26).

A better approach would be to develop guidance that reference/incorporate the above AASB 13 principles when determining which expenditures are likely to be included and excluded in the CRC of an asset and the reasons for the determination.

If you have any queries with respect to our comments or require further information, please contact me at vicki.stylianou@publicaccountants.org.au or on mobile 0419 942 733.

Yours sincerely

Vicki Sylianou
Group Executive, Advocacy & Policy
Institute of Public Accountants

About the IPA

The IPA is one of the professional accounting bodies in Australia with over 47,000 members and students across 80 countries. Approximately three-quarters of our members either work in or are advisers to the small business and SME sectors. Since merging with the Institute of Financial Accountants UK, the IPA Group has become the largest SME and SMP focused accounting body in the world.

30 June 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
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AUSTRALIA

Via website: www.aasb.gov.au

Dear Keith

Exposure Draft (ED) 320, Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

As the representatives of over 300,000 professional accountants, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on the above Exposure Draft (ED).

We appreciate the AASB's efforts to develop guidance to assist not-for-profit (NFP) public sector entities apply the fair value requirements of AASB 13 *Fair Value Measurement* (AASB 13) to assets primarily held for their service potential. Many stakeholders have keenly sought additional implementation guidance on the principles in AASB 13 for these types of assets in order to prepare and audit consistent and comparable financial information. Particularly complex issues, which have now been addressed by this ED, are the following:

- Identifying appropriate market participants,
- Assessing highest and best use for specialised assets, and
- Calculating current replacement cost.

We believe the proposals in ED 320 are a reasonable and measured approach to the complexities of the above implementation challenges and the associated professional judgements. We also agree that the proposals in the ED address the variety of other issues by setting out logical, pragmatic and consistent responses.

Therefore, overall, we support the AASB's proposals.

However, while we expect the proposed guidance will reduce the challenges stakeholders face with fair value measurement, feedback we have received from our members indicates that, in some instances, they will continue to encounter practical difficulties in implementing the proposed requirements. In these instances, additional clarification of key terms or further guidance will be needed to provide clearer direction and reduce the associated measurement uncertainty. We have identified where this additional clarification or guidance is required in our responses to the specific questions raised in the ED, which are included in the **Attachment** to this submission.

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If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

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Executive General Manager,
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Simon Grant FCA
Group Executive – Advocacy, Professional Standing and International Development
Chartered Accountants Australia and New Zealand

Attachment

Scope

1. **Do you consider that the proposed authoritative implementation guidance should be applicable also to NFP entities in the private sector? Please provide reasons to support your view.**

   The use of fair value is not mandated in the NFP private sector in the same way as it is in the NFP public sector. Feedback from our members is that the NFP private sector does not have the same level of difficulty applying the principles in AASB 13.

   However, we support transaction neutrality as a general principle and consider that private sector NFPs using AASB 13 would face similar valuation and implementation issues to those of public sector NFPs. The AASB's proposed guidance provides sensible and pragmatic support for many of the judgment issues faced by NFPs more generally, and so the use of this guidance by private sector NFPS should promote consistency in application and more useful information to users.

   We therefore agree that this guidance should be available to NFPs in both the private and public sector if they are adopting AASB 13.

2. **Do you agree with the AASB's conclusion that determining appropriate measurement techniques for measuring the fair value of land and improvements on land subject to public-sector-specific legal restrictions is best regarded as relating to detailed valuation assessments and should not be mandated in Australian Accounting Standards (see paragraphs BC164–BC170)? Please provide reasons to support your view**.

   We agree with the AASB's conclusion. Feedback from our members is that the nature and impact of restrictions on specific assets varies considerably and so assessing this impact is best left to the detailed valuation assessments. We agree with the commentary (in paragraph BC166 of the Basis for Conclusion to the ED (BC)) that the current requirements of AASB 13 enable a largely consistent approach to measurement for affected types of asset classes. We also agree that if a level of government requires a more specific level of measurement consistency for entities within its jurisdiction, it would be better placed, than the AASB, to provide the jurisdictional specific guidance necessary to achieve this consistency.

Market participant assumptions

3. **In respect of the assumptions used in measuring the fair value of a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, do you agree with the proposals in paragraphs F4–F7 that:**
   a. **if the market selling price of an identical asset is directly observable, that price (which incorporates implicitly the assumptions that other market participants would use when pricing the asset, negating the need to identify those assumptions) should be used to estimate the fair value of the asset; and**

b. **if the market selling price of an identical asset is not directly observable, the entity would need to explicitly estimate the pricing assumptions that other market participants would use. In this case, to maximise the use of relevant observable inputs and minimise the use of unobservable inputs:**
    i. **if all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity should use those assumptions in measuring the fair value of the asset; or**
    ii. **if not all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity would need to develop unobservable inputs in measuring the fair value of the asset. When applying paragraph 89 to develop unobservable inputs, the entity should use its own assumptions as a starting point and make adjustments to those assumptions if reasonably available information indicates that other market participants would use different data; or**
    iii. **if no relevant information about other market participant assumptions is reasonably available, the entity should use its own assumptions in measuring the fair value of the asset?**

Please provide reasons to support your view.

We agree that the above proposals should make the application of these requirements more practical for the reasons set out in the BC (paragraphs BC23-31). Mandating an option that is permissible under AASB 13 should provide more consistency in approach and the proposed revisions to the structure of paragraph 89 of AASB 13 are helpful in making the requirement clearer.

4. **Paragraph F8 provides examples of assets for which:**
    a. **market selling prices of an identical or a comparable asset are unlikely to be directly observable; and**
    b. **no relevant information about different assumptions of other market participants is likely to be reasonably available.**

Do you agree with the examples in paragraph F8? Please provide reasons to support your view.

Examples provided in paragraph F8 are infrastructure (e.g., roads, drainage and sewerage works), prisons, parliament houses, fire stations, police stations, war memorials, traffic or pedestrian facilities, community facilities (e.g., toilet blocks) and most defence weapon platforms.)

We agree that these examples generally represent assets which provide essential but often unique or location specific services. This means they are unlikely to be duplicated or disposed of without some significant change to the activities or services available to the communities they are designed to serve. This makes the existence of comparable assets, or market participants interested in providing or using these assets in a similar manner, unlikely on an ongoing basis.

Highest and best use

5. **Do you agree with the proposal in paragraphs F9–F11 that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13 paragraph 29 that the 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? Please provide reasons to support your view.**

   We agree that the current location and initial condition of most assets held for their service potential in the public sector have been deliberate choices made at some point to best serve community needs. We therefore agree that valuing such assets at their current locations represents their highest and best use. We also agree that this presumption should only change when the decision is made to change the asset's use (via sale or repurposing for a different use).

   That is, we agree that a decision to change the asset's use should be a necessary condition to rebut the highest and best use presumption and change the measurement basis.

   However, feedback from our members is that there needs to be clear alignment of these proposals with those currently required by AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* (AASB 5), given the complexity and length of the approval processes that are associated with government decisions at all levels.

6. **Do you agree with the example in paragraph F10 of steps that might, in some circumstances of a particular entity, need to be completed before the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or use the asset for an alternative purpose, namely:**
   a. **relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide;**
   b. **initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and**
   c. **development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose? Please provide reasons to support your view.**

   Examples provided in F10 are
   (a) relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide;
   (b) initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and
   (c) development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose.

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We agree that in order to rebut the presumption that the current use of an asset is its highest and best use, it is important to ensure that there is sufficient evidence of a commitment to pursue that different option that will justify the change in valuation.

However, consistent with our response to question 5, feedback from our members is that there needs to be a clearer alignment of these proposals with those currently required by AASB 5 given the complexity and length of the approval processes that are associated with government decisions at all levels.

7. **Do you agree with the proposal in paragraph F12 that an entity is only required to assess whether a use of the asset is physically possible, legally permissible, and financially feasible in accordance with paragraph 28 when (per paragraph F9) the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted? Please provide reasons to support your view.**

   We agree with the proposal. The feedback from our members is that this is a sensible, pragmatic approach that balances the costs of obtaining additional information with the benefits that can be obtained from that information.

8. **Do you agree with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use' concept described in AASB 13 paragraph 28(c), namely that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, a use is financially feasible if market participants (including NFP public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services? Please provide reasons to support your view.**

   We support the draft implementation guidance. We agree that if an entity would be willing to invest in the service capacity of the asset, this amounts to a recognition that there is ongoing value of that asset's service potential that it is financially feasible to support.

Application of the cost approach

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

9. **Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location? Please provide reasons to support your view**.

   We agree with this proposal. Feedback from our members is that this is a reasonable and pragmatic approach to resolving this complicated judgement issue, eliminating the need for dealing with the complexities associated with asset measurement in a cheaper location.

10. **Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? Please provide reasons to support your view**.

We agree with these proposals given that assuming the asset does not exist will ensure the identification and capture of all the costs that would be necessary to replace it, and so would more fairly reflect the actual value represented by it.

However, as noted in our cover letter, feedback from our members indicates that it would be difficult to reliably measure all the “necessary” and “intrinsically linked costs” without additional implementation guidance on these concepts. This is because this approach represents a hypothetical, rather than an actual, asset construction. As such, replacement could be open to a range of possible assumptions, including borrowing cost options and construction costs associated with greenfield versus brownfield issues.

11. **Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (i.e., a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Please provide reasons to support your view**.

    We support aligning the principles of this guidance with those of the International Valuation Standard IVS 105 *Valuation Approaches and Methods.*

12. **Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset’s current replacement cost? Please provide reasons to support your view.**

    Consistent with our response to question 10 we agree that assuming the asset does not exist will enable capture of all costs that will be incurred to construct it initially and so will then more accurately reflect the actual value represented by it.

    However, as noted in our cover letter, the feedback from our members indicates that it would be difficult to reliably measure all the “necessary” and “intrinsically linked costs”, without additional implementation guidance on these concepts, due to the difficulties associated with identifying costs associated with those assets that will actually be replaced.

13. **Do you agree with the proposal in paragraph F15(b) that, when estimating the current replacement cost of the subject asset, an entity should determine, based on the circumstances of the subject asset, whether the following costs would (among other costs) need to be incurred upon the hypothetical acquisition or construction of that asset at the measurement date:**
    a. **unavoidable costs of removal and disposal of unwanted existing structures on land; and**
    b. **any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs? Please provide reasons to support your view.**

a) We agree with this approach in principle, but feedback from our members is that it could be problematic to implement in practice due to the challenges of sourcing the necessary information. We therefore recommend the inclusion of additional guidance to assist entities deal with inadequate information.

b) We agree with this approach in principle, but feedback from our members is that it could be problematic to apply in practice because many such costs are external to the entity or group, and so estimating and auditing these costs for inclusion in the calculation could be difficult. We therefore recommend the inclusion of additional guidance to assist entities deal with inadequate information.

14. Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity? Please provide reasons to support your view. Please note that Illustrative Examples 1 and 2 illustrate the application of paragraphs F14 and F15.

We agree that this is the most pragmatic approach to reflecting the true value currently reflected in the measured value of the asset. This is what the entity is seeking to identify in a replacement asset.

Economic obsolescence

15. Do you agree with the proposal in paragraph F16 that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity? Please provide reasons to support your view.

We agree with the proposal for the reasons set out in the BC (paragraphs BC134-141), including seeking consistency with the International Public Sector Accounting Standards Board (IPSASB) Conceptual Framework.

16. Do you agree with the proposal in paragraph F17 and the example in paragraph F18 that economic obsolescence should not be identified for any 'surplus capacity' of an asset that is necessary for stand-by or safety purposes (e.g. to deal with contingencies), even if it seldom or never is actively utilised? Please provide reasons to support your view.

We support this proposal because such capacity is necessary for "insurance" purposes and for prudent management of the asset. This approach is also consistent with the IPSASB Conceptual Framework. However, we suggest providing some examples of scenarios where such "surplus capacity" can be identified to assist with a better understanding of this concept and applying it when measuring the fair value of an affected asset.

Application of the proposed implementation guidance

17. Do you agree with the proposal in paragraph AusC6.1 that the proposed authoritative implementation guidance set out in Appendix F should be applied prospectively? Please provide reasons to support your view.

We agree with the proposal. Feedback from our members is that retrospective application of these proposals could be problematic, requiring the search for historical information that is not readily available and so which is also difficult to audit. We believe that the concerns about comparability and consistency resulting from a prospective change can be mitigated by adequate disclosure of the impact of the change when it occurs.

18. If you agree with prospective application in Question 17, do you consider that it would be appropriate for the AASB to provide an option for an NFP public sector entity to elect to restate comparative information as if the authoritative implementation guidance in Appendix F had been applied from a preceding period? Please provide reasons to support your view.

While we support prospective implementation for this guidance, we also recognise that retrospective application improves comparability and increases the quality of information available to users. Therefore, an entity should have the option to choose retrospective application if it is cost beneficial for them to do so.

19. If you consider it appropriate for the AASB to provide an option for an NFP public sector entity to restate comparative information (see Question 18), do you consider it appropriate that, if an entity elects to restate comparative information, it should be required to disclose the amount of the adjustment for each financial statement line item affected, as if the implementation guidance had:

  a. always been applied (i.e. full retrospective application in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors); or

  b. been applied from a specific preceding period, for example, the beginning of the immediately preceding period presented in the financial statements (i.e. modified retrospective application)? If so, please specify which preceding period you think would be appropriate. Please provide reasons to support your view.

We support option (b) on the basis that full retrospective application is likely to have limited usefulness given the age and uncertainty of the historical information that would be required to implement the approach in option (a).

20. Further to Question 19, do you consider it would be appropriate for such optional restatements, if elected, to be required for all affected assets, except to the extent it is impracticable for the entity to determine either the period-specific effects of the implementation guidance or the cumulative effect of the change? Please provide reasons to support your view.

We believe that if an entity is choosing the retrospective application option, this should be applicable to all affected assets, otherwise prospective application is a more appropriate choice.

21. Do you agree that the proposed authoritative implementation guidance set out in Appendix F should be applied for annual periods beginning on or after 1 January 2024, with earlier application permitted? Please provide reasons to support your view.

We agree with the proposed application date and with permitting early adoption. The need for this guidance to promote consistency in the application of AASB 13 is well recognised and we believe the proposed application date provides adequate time for implementation.

General matters for comment

22. Whether the AASB Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

In our view the issues associated with the application of fair value in the NFP public sector are of sufficient magnitude and complexity that they justify the preparation of Australian specific guidance to support the implementation of AASB 13, consistent with paragraph 24 of the AASB's NFP Standard-Setting Framework.

23. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

In our view these proposals will improve the application of AASB 13 in the NFP public sector.

24. Whether, overall, the proposals would result in financial statements that would be useful to users?

We believe the guidance addresses many issues that have been of considerable concern to public sector stakeholders implementing AASB 13 and so will be valuable in promoting consistency of implementation. This will improve clarity and understanding for users.

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25. Whether the proposals are in the best interests of the Australian economy?

We believe the guidance addresses many issues that have been of considerable concern to stakeholders implementing fair value requirements in the NFP public sector.

26. Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

Feedback we received from our members is that auditing and assurance challenges could arise from the following proposals, if additional guidance is not provided:

- Identification of costs included in current replacement cost (see our response to question 13)
- Retrospective application (see our response to question 17).

27. Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

In our view the proposals will provide greater clarity on key implementation requirements of AASB 13 in the NFP public sector, reducing the implementation costs associated with complying with this standard.

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30 June 2022

Request for Comment on AASB Exposure Draft - ED 320 Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

Prepared by the Specialist Government and Statutory Assets Working Group,
a subcommittee of the API Standards Steering Committee

The API would like to thank all the members of the Specialist Government and Statutory Assets Working Group for their contributions, knowledge and insights which formed the basis of the APIs responses and comments.

The working group consisted of;

Mark Kay	Chair API SSC, SA govt
Robert Rixon	Colliers
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Stephen Protopopoff	ACT govt
Kieran Newton	NSW govt
Greg Hodgson	NSW govt
Cameron Human	QLD govt
Ian Krelle	Vic govt
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Brooke Smith	Marsh
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Yours faithfully,

David Brandon
Manager Professional Standards
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30 June 2022

Request for Comment on AASB Exposure Draft - ED 320 Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

Prepared by the Specialist Government and Statutory Assets Working Group, a subcommittee of the API Standards Steering Committee

The API through the work of the Standards Steering Committee and specialist working groups provides the following response to the AASB Exposure Draft – ED 320 Fair Value Measurement of Non-Financial Assets of not-for-Profit Public Sector Entities.

Scope

1 Do you consider that the proposed authoritative implementation guidance should be applicable also to NFP entities in the private sector?

Please provide reasons to support your view.

Response:

The API provides no comment to question 1.

Reasons:

This is a decision for the AASB and their consultation with entities in the not-for-profit public sector.

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2 Do you agree with the AASB's conclusion that determining appropriate measurement techniques for measuring the fair value of land and improvements on land subject to public-sector-specific legal restrictions is best regarded as relating to detailed valuation assessments and should not be mandated in Australian Accounting Standards (see paragraphs BC164–BC170)?

Please provide reasons to support your view.

Response:

The API agrees that the Australian Accounting Standards should not be mandating valuation standards/methodologies.

Reasons:

The API consider there should be no mandate for AASB to provide guidance to Valuers on valuation standards/methodology. Guidance should be left to the Valuer to interpret the AASB Standard in line with International Valuation Standards and relevant State Treasury Policy.

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Market participant assumptions

3 In respect of the assumptions used in measuring the fair value of a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, do you agree with the proposals in paragraphs F4–F7 that:

(a) if the market selling price of an identical asset is directly observable, that price (which incorporates implicitly the assumptions that other market participants would use when pricing the asset, negating the need to identify those assumptions) should be used to estimate the fair value of the asset; and

(b) if the market selling price of an identical asset is not directly observable, the entity would need to explicitly estimate the pricing assumptions that other market participants would use. In this case, to maximise the use of relevant observable inputs and minimise the use of unobservable inputs:

(i) if all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity should use those assumptions in measuring the fair value of the asset; or

(ii) if not all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity would need to develop unobservable inputs in measuring the fair value of the asset. When applying paragraph 89 to develop unobservable inputs, the entity should use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data; or

(iii) if no relevant information about other market participant assumptions is reasonably available, the entity should use its own assumptions in measuring the fair value of the asset?

Please provide reasons to support your view.

Response:

(a) The API agrees if identical assets are available for comparison purposes.

(b) (i) API agree – the assessment should maximise observable and minimise unobservable information

(ii) API agrees in principle. However, in these cases the asset would not be an identical asset where level 1 inputs are observable

(iii) API agrees in principle. However, in these cases the asset would not be an identical asset where level 1 inputs are observable

Reasons:

The API acknowledges that Level 1 inputs are for identical assets. The assumption of Level 1 inputs is generally for financial assets only and does not apply for non-financial assets. API Valuers would generally be involved in valuing non-current assets (land and buildings) that do not have identical (Level 1) inputs.

- Level 1 inputs – quoted prices in active markets for identical assets. Not generally applicable for valuations of real property assets
- Level 2 inputs – inputs other than quoted prices observable for the asset, either directly or indirectly. Generally, where direct comparison is used with little adjustment to sales.
- Level 3 inputs – unobservable inputs. Generally depreciated replacement cost, discounted cash flows, capitalisation method.

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4 Paragraph F8 provides examples of assets for which:

(a) market selling prices of an identical or a comparable asset are unlikely to be directly observable; and

(b) no relevant information about different assumptions of other market participants is likely to be reasonably available.

Do you agree with the examples in paragraph F8?

Please provide reasons to support your view

Response:

The API agrees.

Reasons:

There is the potential to expand the examples to include other Government assets such as hospitals, schools, court houses, sport stadium, libraries, Government House.

Highest and best use

5 Do you agree with the proposal in paragraphs F9–F11 that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13 paragraph 29 that the 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?

Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

A plan to sell surplus assets (land/building) may indicate that the current use is no longer the highest and best use.

The API notes that in certain situations the timeframe to prepare the asset to have it ready for sale may be quite some time down the track; and as such the API does not consider that the highest and best use has changed until the asset is ready for sale in the condition that management intended. This is for the not-for-profit public sector entity to decide and advise the valuer to assess according to the intended use of the asset.

In certain circumstances, an entity's use of a non-financial asset is presumed to be its current highest and best use unless market or other factors indicate that an alternate use by market participants would maximise the value of the asset.

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6 Do you agree with the example in paragraph F10 of steps that might, in some circumstances of a particular entity, need to be completed before the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or use the asset for an alternative purpose, namely:

(a) relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide.

(b) initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and

(c) development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose?

Please provide reasons to support your view

Response:

The API agrees with question 6.

Reasons:

The API note that the existence of above indicators alone should not be taken as management's commitment to sell the asset or use the asset for an alternative purpose. Feasibility studies and due diligence should be completed prior to management's commitment to sell the assets.

However, as noted in our response in question 5, management's commitment to sell the asset is considered too premature and should not be the indicator to when the highest and best use of the asset has changed as there are other market factors that may need to be considered.

---

7 Do you agree with the proposal in paragraph F12 that an entity is only required to assess whether a use of the asset is physically possible, legally permissible, and financially feasible in accordance with paragraph 28 when (per paragraph F9) the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted?

Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

An entity should only be required to assess whether a use of the asset is physically possible, legally permissible, and financially feasible, when the presumption that the asset's current use is its highest and best use is rebutted. That is, the asset should not have to be assessed based on its current use. This would only occur when the asset is considered surplus and no longer required by the entity, and the requirements under question 6 have been satisfied.

---

8 Do you agree with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use' concept described in AASB 13 paragraph 28(c), namely that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, a use is financially feasible if market participants (including NFP public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services?

Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

A use would be financially feasible if other market participants would be willing to invest in the asset, that is, other not-for-profit public sector entities must be considered as market participants.

Application of the cost approach

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

9 Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location?

Response:

The API agrees.

Reasons:

The asset should be assumed to be replaced in its existing location.

---

10 Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost?

Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

Any cost that is directly attributable to the acquiring or constructing the asset should be considered and included in the assessment. This is consistent with the requirements of AASB 116 *Property, Plant and Equipment* (paragraphs 16 and 17) and should form part of the current replacement cost.

---

11 Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (i.e., a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset?

Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

This is applicable to heritage buildings held because of their heritage significance. The current cost is the cost of replicating the existing asset. This is because the replication cost reflects the heritage value or quality embodied in the asset.

Replication (reproduction cost) would assume reconstruction with modern materials, but sympathetic with the original heritage design and structure, to the extent that this is feasible. If a heritage building was constructed with an imposing entry, high ceilings, elaborate sandstone carvings, open verandas and large carved cedar doors, the cost of replication would reflect that design and structure.

IVS 105 *Valuation Approaches and Methods* at paragraph 70.6 and 70.7 provides guidance to Valuers regarding the reproduction cost method. In the normal course of providing professional services, a Valuer would seek further expert advice/guidance from Quantity Surveyors, Construction handbooks and actual construction costs provided by the entity.

---

12 Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

F15(a) refers to a hypothetical subdivision and AASB-13 refers to exit price. Consistency in the approach taken, will be important when considering acquisition costs for an exit price assessment. (AASB 13, paragraphs 24 and 57 refer to 'exit price').

> *"(24) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.*
>
> *(57) When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be*

received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them."

---

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

(a) unavoidable costs of removal and disposal of unwanted existing structures on land; and

(b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs?

Please provide reasons to support your view.

Response:

The API agrees but consider that consistency is important in applying acquisition costs to an exit price assessment.

Reasons:

Our understanding of F 15(b) is:

(i) the demolition cost of buildings to achieve a vacant land asset.

(ii) redirecting infrastructure works such as removing power or water infrastructure from land required for a main roads acquisition.

Note: The demolition costs may be considered as part of the acquisition costs for achieving a vacant land equivalent, in other circumstances if an existing building is demolished it would be up to the entity to determine to how to account for the demolition and any disruption costs.

---

14 Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity?

Please provide reasons to support your view.

Please note that Illustrative Examples 1 and 2 illustrate the application of paragraphs F14 and F15

Response:

The API agrees.

Reasons:

The actual cost needs to be reflected not at a lower cost. That is apply the extra cost of works during construction if applicable.

API acknowledges BC126 which notes

> "... that the treatment of borrowing costs and other finance costs when measuring the current replacement cost of an asset is not specific to not-for-profit entities in the public or private sector. It concluded that, in light of AASB 13 not specifying the treatment of those costs for fair value measurements by for-profit entities, it would be inappropriate to mandate a particular treatment for not-for-profit entities applying AASB 13".

---

15 Do you agree with the proposal in paragraph F16 that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity?

Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

The International Valuation Standards at IVS 105 *Valuation Approaches and Methods* paragraph 80.7 states;

> "Economic obsolescence *may* arise when external factors affect an individual *asset,* or all the *assets* employed in a business and *should* be deducted after physical deterioration and functional obsolescence. For real estate, examples of economic obsolescence include:
>
> (a) adverse changes to demand for the products or services produced by the *asset,*
>
> (b) oversupply in the market for the *asset,*
>
> (c) a disruption or loss of a supply of labour or raw material, or
>
> (d) the *asset* being used by a business that cannot afford to pay a market rent for the *assets* and still generate a market rate of return."

---

16 Do you agree with the proposal in paragraph F17 and the example in paragraph F18 that economic obsolescence should not be identified for any 'surplus capacity' of an asset that is necessary for stand-by or safety purposes (e.g., to deal with contingencies), even if it seldom or never is actively utilised?

Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

As noted previously in response to question 15 the International Valuation Standards at IVS 105 *Valuation Approaches and Methods* paragraph 80.7 states;

> "Economic obsolescence *may* arise when external factors affect an individual *asset,* or all the *assets* employed in a business and *should* be deducted after physical deterioration and functional obsolescence. For real estate, examples of economic obsolescence include:
>
> (a) adverse changes to demand for the products or services produced by the *asset,*
>
> (b) oversupply in the market for the *asset,*
>
> (c) a disruption or loss of a supply of labour or raw material, or
>
> (d) the *asset* being used by a business that cannot afford to pay a market rent for the *assets* and still generate a market rate of return."

The assessment of 'surplus capacity' (required for standby or safety purposes due to changing demographics) such as a school building, which may be assessed as a change of use and is not recognised as surplus capacity.

Application of the proposed implementation guidance

17 Do you agree with the proposal in paragraph AusC6.1 that the proposed authoritative implementation guidance set out in Appendix F should be applied prospectively?

Please provide reasons to support your view.

Response:

The API offers no response to this question.

Reasons:

It does not apply for API real property Valuers.

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18 If you agree with prospective application in Question 17, do you consider that it would be appropriate for the AASB to provide an option for an NFP public sector entity to elect to restate comparative information as if the authoritative implementation guidance in Appendix F had been applied from a preceding period?

Please provide reasons to support your view.

Response:

The API offers no response to this question.

Reasons:

It does not apply for API real property Valuers.

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19 If you consider it appropriate for the AASB to provide an option for an NFP public sector entity to restate comparative information (see Question 18), do you consider it appropriate that, if an entity elects to restate comparative information, it should be required to disclose the amount of the adjustment for each financial statement line item affected, as if the implementation guidance had:

(a) always been applied (i.e., full retrospective application in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors); or

(b) been applied from a specific preceding period, for example, the beginning of the immediately preceding period presented in the financial statements (i.e., modified retrospective application)? If so, please specify which preceding period you think would be appropriate.

Please provide reasons to support your view.

Response:

The API offers no response to this question.

Reasons:

It does not apply for API real property Valuers.

---

20 Further to Question 19, do you consider it would be appropriate for such optional restatements, if elected, to be required for all affected assets, except to the extent it is impracticable for the entity to determine either the period-specific effects of the implementation guidance or the cumulative effect of the change?

Please provide reasons to support your view.

Response:

The API offers no response to this question.

Reasons:

It does not apply for API real property Valuers.

---

21 Do you agree that the proposed authoritative implementation guidance set out in Appendix F should be applied for annual periods beginning on or after 1 January 2024, with earlier application permitted?

Please provide reasons to support your view.

Response:

The API agrees.

Reasons:

General matters for comment

The AASB would also particularly value comments on the following general matters:

22 Whether the AASB Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

Response:

The API offers no response to this question.

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23 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

Response:

The API offers no response to this question.

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24 Whether, overall, the proposals would result in financial statements that would be useful to users?

Response:

The API offers no response to this question.

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25 Whether the proposals are in the best interests of the Australian economy?

Response:

The API offers no response to this question.

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26 Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

Response:

The API offers no response to this question.

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27 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Response:

The API is unable to provide any further response to this question.

Local Government Professionals AUSTRALIA NSW

30 June 2022

Office of Australian Accounting Standards Board
PO Box 204
Collins St West VIC 8007
Via online submission

Fair Value Measurement of Non Financial Assets of Not-for-Profit Public Sector Entities

Local Government Professionals Australia, NSW is the leading association representing the professionals in NSW local government. We are committed to maintaining high professional and ethical standards throughout the sector and ensuring that our members are at the forefront of change and innovation.

Our response to the AASB Exposure Draft ED320 was prepared by our Finance Member Network made up of members representing the finance professionals working in NSW councils.

We express our appreciation to the Australian Accounting Standards Board (AASB) for developing the proposed guidance, by listening to and engaging with key stakeholders, to help the sector's interpretation and application of AASB 13 Fair Value Measurement given the significance and unique nature of public sector non-financial physical assets.

In particular, we support the clarification in paragraph BC62 that the fair value measurement of an asset would not take into account a restriction that is specific to the entity holding the asset, i.e. would not transfer to market participants in a hypothetical sale transaction.

Due to the significance of this paragraph, we propose that this guidance be included within Appendix F [FOR AASB 13] Australian implementation guidance for not-for-profit public sector entities, so that it forms an integral part of the Standard.

Currently the fair value of land controlled by NSW councils that they have categorised as 'community' land for the purposes of the NSW Local Government Act 1993, is discounted to take into account this restriction. However, this restriction in use would not transfer to market participants in a hypothetical sale transaction.

To help the not-for-profit public sector achieve greater consistency in our interpretation and application of AASB 13 Fair Value Measurement, we support the finalisation of the clarifying guidance specifically relating to market participant assumptions and highest and best use.

Should you require further information, please contact our Chief Executive Officer, Vicki Mayo on 8297 1204 or vicki@lgprofessionals.com.au.

Yours faithfully

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AUSTRALASIAN COUNCIL OF AUDITORS GENERAL

30 June 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Dr Kendall

AASB Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on AASB Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports the Board's efforts to provide additional guidance to help public sector entities more consistently apply the principles in AASB 13 in relation to determining the fair value measurement of non-financial assets not held primarily for their ability to generate net cash inflows.

ACAG has some concerns that the draft implementation guidance may lead to divergent practices and other fair value measurement challenges. In particular, ACAG believes that the application guidance related to highest and best use and the current replacement cost approach can be further clarified to reduce these risks. More detail on these concerns is raised in our response to SMCs 5, 6 and 13.

ACAG has also included other suggestions and recommendations that we believe will help promote greater consistency and comparability of application across the public sector.

The attachment to this letter addresses the AASB's specific matters for comment outlined in the ED.

ACAG appreciates the opportunity to comment and trusts you find the attached comments useful.

Yours sincerely

Margaret Crawford
Chair
ACAG Financial Reporting and Accounting Committee

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Attachment

AASB Specific Matters for Comment

Scope

SMC 1
Do you consider that the proposed authoritative implementation guidance should be applicable also to NFP entities in the private sector? Please provide reasons to support your view.

ACAG is not commenting on the applicability of this guidance to the NFP private sector.

SMC 2
Do you agree with the AASB's conclusion that determining appropriate measurement techniques for measuring the fair value of land and improvements on land subject to public-sector-specific legal restrictions is best regarded as relating to detailed valuation assessments and should not be mandated in Australian Accounting Standards (see paragraphs BC164–BC170)? Please provide reasons to support your view.

ACAG agrees with the AASB's conclusion not to mandate a specific measurement technique for measuring the fair value of land and improvements on land subject to public sector legal restrictions.

Specifying a specific measurement technique for measuring land and improvements on land subject to public sector legal restrictions appears to conflict (from a standard-setting perspective) with:

- paragraph 61 of AASB 13 which requires an entity to select measurement techniques that:
  - are appropriate in the circumstances
  - for which sufficient data is available to measure fair value and
  - maximise the use of relevant observable inputs and minimise the use of unobservable inputs
- a principles based standard.

ACAG acknowledges paragraphs BC149 and BC 170 of the ED which state that if a Treasury or Finance Department (or other authority) and/or the Office of Local Government in a jurisdiction desires greater consistency in the valuation approach(es) used to measure the fair value of particular types or classes of non-financial assets in a jurisdiction, it may choose to designate a valuation approach for application to those assets held by public sector entities in its jurisdiction.

ACAG also notes that paragraph BC 166 of the ED states that:

'Despite the debate regarding fair value measurement of land subject to public-sector-specific legal restrictions, feedback from most stakeholders in targeted outreach and most feedback on ITC 45 indicated that, in practice, the fair value of each type or class of assets affected by this issue is being measured using a largely consistent approach – that is:

(a) for land subject to public-sector-specific legal restrictions, the market approach is used (although, as noted in paragraph BC168 below, at a more detailed level, different methods are being used to calculate the adjustments to reflect restrictions); and ….'

ACAG supports the above paragraph and believes that public-sector-specific restrictions (whether legal or implied socio-political restrictions) should be considered when valuing land by using the market approach with an adjustment to reflect the restrictions. In our view, this is consistent with the draft ED 320 because:

- Paragraph F9 states that an asset's current use is presumed to be its highest and best use unless this presumption is rebutted by management committing to a plan to sell or change the asset's use. Applying the requirements of paragraph F9 means the highest and best use of, for example, community parkland is its current use as a park (assuming this presumption cannot be rebutted) and therefore the valuation of the land should be based on its current use as a park, rather than by reference to surrounding land that may be used for residential, commercial or other uses. This is irrespective of whether or not there are legal restrictions on the use of the land as a park.

- BC62 states that the fair value of an asset would take into account the effect of restrictions that would transfer to market participants in a hypothetical sale transaction. Paragraph 140.5 of International Value Standards 104 *Bases of Value* states that '*to reflect the requirement to be legally permissible, any legal restrictions on the use of the asset, e.g., town planning/zoning designations, need to be taken into account as well as the likelihood that these restrictions will change*'. In the public sector, entities such as councils may not be able to remove zoning restrictions. For example, in NSW, community land cannot be sold by a local council unless it is converted to operational land. In most cases, councils do not have the sole ability to change the status of this land without a comprehensive planning process that requires the approval of third parties.
- Paragraph F4(b) of the draft ED states 'if the market selling price of an identical asset is not directly observable, the entity explicitly estimates the pricing assumptions that market participants would use by maximising the use of relevant observable inputs and minimising the use of unobservable inputs.' A market approach maximises the use of observable inputs and will usually be available even where there is no equivalent parcel of land with the same public-sector-specific restrictions in the marketplace. For example, while there may not be an equivalent parcel of land with the same zoning restrictions in the marketplace as a park being valued, there are other parcels of land that have market prices that provide a suitable reference point.

Two jurisdictions' additional view on valuations for GFS purposes

While two jurisdictions supported the proposals in ED 320, they would like the AASB to explore the notion of 'entry price' further and consider providing an optional relief from the requirements of paragraph 24 of AASB 13.

This is because under the ED proposals, which provide relief from current processes, entities will still need to go through a process of determining whether the revised relief applies, determining whether market observable inputs are available, and to document their findings.

These jurisdictions believe that an exemption would result in a more cost-efficient valuation and a fair value that reflects the non-financial benefits of providing needed services to beneficiaries that are not captured in a market-based exit price (which for assets like roads and land under roads can be a decrement to entry price approaching 100%).

Apart from land which is valued as per market approach with discounts in some jurisdictions, given many public sector infrastructure assets are valued at current replacement cost, the introduction of the entry price notion, or providing an exemption from paragraph 24 of AASB 13, will likely result in the same outcome, however, this would be subject to further research and impact analysis by the AASB. The jurisdictions believe that this valuation would still provide consistency with the International Monetary Fund Government Financial Statistics Manual 2014 (IMF GFSM) and the Australian Government Financial Statistics Manual (AGFSM) which governments are expected to follow when preparing their general government sector and whole of government sector financial statements. The IMF GFSM (paragraphs 7.20 – 7.31) and AGFSM (paragraphs 8.26 – 8.29, 8.34 – 8.39) regard the market value of assets as an entry price. Such an exemption would then provide clarity on the appropriate valuation technique to select for each asset class, including land.

Market participant assumptions

SMC 3
In respect of the assumptions used in measuring the fair value of a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, do you agree with the proposals in paragraphs F4–F7 that: (a) if the market selling price of an identical asset is directly observable, that price (which incorporates implicitly the assumptions that other market participants would use when pricing the asset, negating the need to identify those assumptions) should be used to estimate the fair value of the asset; and (b) if the market selling price of an identical asset is not directly observable, the entity would need to explicitly estimate the pricing assumptions that other market participants would use.

> In this case, to maximise the use of relevant observable inputs and minimise the use of unobservable inputs:
>
> (i) if all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity should use those assumptions in measuring the fair value of the asset; or
>
> (ii) if not all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity would need to develop unobservable inputs in measuring the fair value of the asset. When applying paragraph 89 to develop unobservable inputs, the entity should use its own assumptions as a starting point and make adjustments to those assumptions if reasonably available information indicates that other market participants would use different data; or
>
> (iii) if no relevant information about other market participant assumptions is reasonably available, the entity should use its own assumptions in measuring the fair value of the asset?
>
> Please provide reasons to support your view.

ACAG agrees with the proposals in paragraphs F4-F7 as they are consistent with the requirements in paragraphs 61 and 89 of AASB 13.

One jurisdiction, while supporting the proposals (re-emphasis of paragraphs 22, 23, 61, 67 and 89 in F4 to F7), suggests including additional guidance as follows:

- the emphasis of using the entity's own data in the absence of other available data is highly relevant to the cost approach as entities have internal data about construction costs, the condition of their assets etc. This emphasis will provide little assistance for the market approach as entities do not usually have internal data about recent sales that is not also externally available. This jurisdiction therefore recommends that the implementation guidance include a further paragraph to the effect that the cost approach should be used when data that is relevant, reliable and current for the market approach is unavailable both externally and internally (and when the income approach is not appropriate because the asset is not held to generate net cash inflows)
- expanding paragraph F5(a), to state that a market participant is not readily identifiable when the entity is a monopoly service provider, on a not-for-profit basis, in their geographical area. This will avoid discussions on whether divergent assumptions made in other local governments/States are relevant.

SMC 4
Paragraph F8 provides examples of assets for which: (a) market selling prices of an identical or a comparable asset are unlikely to be directly observable; and (b) no relevant information about different assumptions of other market participants is likely to be reasonably available. Do you agree with the examples in paragraph F8? Please provide reasons to support your view.

ACAG agrees with the examples in paragraph F8 as market selling prices of an identical or a comparable asset are unlikely to be directly observable as they are either highly specialised assets or infrequently traded. However, defense weapons platforms are a mixture, as some off-the-shelf products are actively traded and have observable inputs whereas other assets (e.g. Collins Class submarines) are highly bespoke and so customized that it is difficult to identify any comparable traded assets.

ACAG believes that purpose-built hospitals and schools should also be included as examples, as these are commonly valued on a current replacement cost basis to construct the asset, and not based on market trading activity.

Highest and best use

SMC 5
Do you agree with the proposal in paragraphs F9–F11 that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13 paragraph 29 that the 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? Please provide reasons to support your view.

ACAG agrees with the proposals in paragraphs F9-F11 that for a non-financial asset of a NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13, paragraph 29 that the 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, ACAG believes that in order for management to be committed to sell or use the asset for an alternative purpose, management should already have made the decision to do so i.e. for management to be committed to a plan to sell the asset or use an asset for an alternative purpose the sale or change in use needs to have been approved by the appropriate level of management. This will help reduce the judgement involved and likely disagreements between entities and auditors on whether or not the appropriate level of management has 'committed to a plan to sell the asset or use the asset for an alternative purpose'.

For the purpose of valuing an asset, ACAG believes that the considerations of physically possible, legally permissible and financially feasible need to be assessed as part of the decision/approval made by the appropriate level of management to sell or change the asset's existing use. ACAG therefore recommends the Board amends F9 to reflect that management's decision/approval at the measurement date to a plan to sell the asset or to use the asset for an alternative purpose needs to have considered what is physically possible, legally permissible or financially feasible. This is to avoid situations where management may be committed to a course of action, despite there being physical, legal or financial barriers existing that may prevent its success.

While ACAG supports the proposals that the current use of an asset is its highest and best use unless rebutted, we note that AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' is a specific standard that has requirements for assets held for sale and adding a separate, but similar requirement in AASB 13 to rebut the highest and best use assumption may lead to possible confusion. Paragraph 8 of AASB 5 also refers to a commitment by management 'for a sale to be highly probable, the appropriate level of management must be committed to a plan to sell an asset…..'. We therefore recommend that the AASB clarifies and provides more guidance on whether there is any difference between a management commitment under the proposals and a management commitment under AASB 5.

Another ACAG jurisdiction also recommended that the AASB clarify that disclosures under paragraph 93(i) of AASB 13 when the current use is not highest and best use, apply the provisions of paragraph F9, to avoid negating the benefits provided by the relief by having to identify hypothetical situations of alternate highest and best use.

SMC 6
Do you agree with the example in paragraph F10 of steps that might, in some circumstances of a particular entity, need to be completed before the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or use the asset for an alternative purpose, namely: (a) relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide; (b) initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and

(c) development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose? Please provide reasons to support your view.

While these factors appear to be relevant, ACAG believes that paragraph F10 could lead entities to assume meeting the list of activities in F10 might be considered sufficient to meet the criteria of management being committed to a plan to sell or change the purpose of an asset. ACAG believes the following clarifications would help to remove any ambiguity:

- clarify that the steps taken are examples of actions that may be required to confirm that there are no significant physical, legal or financial barriers to sell or change the asset's existing use prior to obtaining approval to sell or redeploy the asset (this links to our response in SMC 5)
- make explicit that in order for management to be committed to sell or use the asset for an alternative purpose the appropriate level of management should already have made the decision to do so. It is important that there is accountability at the transaction level upon the sale or intended sale of any public sector asset
- clarify whether it is one or all steps that need to be completed e.g. could be worded as 'The following one or more steps might….'

ACAG also notes that in a public sector context, a ministerial briefing may not be an approval, and depending on the subject asset, there may need to be ministerial approval, approval by Cabinet or a Cabinet committee or subject to another process.

ACAG believes the example in paragraph BC 51 where an appropriate level of an entity's management 'commits' to begin using an asset (such as equipment) for a commercial purpose (e.g. by leasing out that equipment) while awaiting approval of the asset's sale could be clarified further by including detail that the asset's valuation basis would likely become that alternative use, unless rebutted, as this is now its 'current use'.

SMC 7
Do you agree with the proposal in paragraph F12 that an entity is only required to assess whether a use of the asset is physically possible, legally permissible and financially feasible in accordance with paragraph 28 when (per paragraph F9) the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted? Please provide reasons to support your view.

While ACAG agrees with the proposal in paragraph F12 for the purpose of valuation of the subject asset, we believe that the considerations of physically possible, legally permissible and financially feasible need to be assessed as part of the decision/approval made by the appropriate level of management to sell or change the asset's current use. Refer to SMC 5 and 6 for further details.

SMC 8
Do you agree with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use' concept described in AASB 13 paragraph 28(c), namely that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, a use is financially feasible if market participants (including NFP public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services? Please provide reasons to support your view.

ACAG agrees with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use'. This guidance is consistent with how financially feasible is assessed in the public sector and paragraph Aus49.1 of the *Framework for Financial Reporting* which states that 'future economic benefits is synonymous with the notion of service potential'.

Application of the cost approach

SMC 9
Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location? Please provide reasons to support your view.

ACAG agrees that an entity should assume the asset will be replaced in its existing location. Generally, there will be reasons precluding the move to another location such as a social policy decision/legal restriction/operational requirements etc. that require the asset to be located in its existing location.

If market participants would relocate the asset (i.e. if the entity itself plans to relocate, given that the entity's own plans are the best evidence of market participant assumptions), then ACAG believes that it would be beneficial if the guidance clarifies that the:

- estimated remaining useful life/service potential of the improvements should reflect this plan, which in turn impacts the measurement of accumulated depreciation/obsolescence in a cost approach valuation
- valuation of the land may require an adjustment to reflect the costs required by the purchaser to remove structures after the service is relocated and land sold (if market approach is used).

ACAG also notes that as currently written, paragraph BC80 may give the impression that a public school or public hospital (including the land component) need be valued using the cost approach. We believe this paragraph should be clarified to state that if the land component is valued using the market approach while the improvements thereon are valued using the cost approach, the location issue for the land does not arise as the market approach always values the subject asset, i.e. the land, at its existing location.

SMC 10
Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset’s current replacement cost? Please provide reasons to support your view.

In principle, ACAG agrees with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset’s current replacement cost for the reasons outlined in paragraphs BC95 and BC96. However, we are unclear how paragraph F14(b) interacts with paragraph F15(b). Refer to our comments in SMC 13.

ACAG notes that paragraph F15(c) directly contradicts the principle in F14(b) to assume that the asset presently does not exist. Therefore, paragraph F14(b) and/or F15(c) need to be changed to achieve consistency.

The proposal that the subject asset does not exist may provide practical challenges when a part, rather than the whole asset is replaced, particularly in relation to the costs to include. In the public sector it is common for parts of an asset to be replaced rather than the whole asset. This may occur multiple times over the life of the whole asset. For example, a local government may replace the road surface, but to do so will incur significant costs removing and disposing of the original surface. It is not clear to what extent these costs should be included and their impact on the value of the whole asset? ACAG suggests adding additional guidance in this area.

SMC 11
Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (ie a modern equivalent asset or a replica asset) as input and adjust the estimated

replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Please provide reasons to support your view.

ACAG agrees with the proposals in paragraphs F14(b) and F14(c) as it is consistent with the requirements in paragraph B8-B9 and paragraph 70.6 of International Valuation Standard (IVS) 105 *Valuation Approaches and Methods.*

We note that a replica may be appropriate in the public sector for certain heritage, cultural or collection assets if market participants would require a direct replica rather than a modern equivalent.

ACAG notes that the paragraphs are very brief in providing guidance for how to measure obsolescence. We recommend the inclusion of additional paragraphs for how to measure each form of obsolescence, having regard to the guidance provided by IVS 105.80.

SMC 12
Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.

ACAG conceptually agrees with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost as, if an asset was to be acquired or constructed, these once-only costs at the measurement date would need to be included. However, while some entities may have actually incurred the once-only costs and therefore would have the relevant information, other entities may have inherited the land and infrastructure asset (e.g. from another public sector entity or a private sector developer) and therefore may not have the relevant information and would have to apply judgement and incur additional costs to estimate these hypothetical costs.

SMC 13
Do you agree with the proposal in paragraph F15(b) that, when estimating the current replacement cost of the subject asset, an entity should determine, based on the circumstances of the subject asset, whether the following costs would (among other costs) need to be incurred upon the hypothetical acquisition or construction of that asset at the measurement date: (a) unavoidable costs of removal and disposal of unwanted existing structures on land; and (b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs? Please provide reasons to support your view.

ACAG has concerns that, as currently drafted, the current guidance in paragraphs F15(b)(i) and paragraphs BC 99 – BC106 will lead to inconsistent practices being adopted across the public sector and implementation challenges.

Interaction between paragraphs F14(a), F14(b) and F15(b)(i) and determining unavoidable costs of removal and disposal of unwanted existing structures on land

Paragraph F15(b)(i) refers to the cost of removal and disposal of unwanted structures on land that would hypothetically need to be purchased to construct the asset when there are no vacant sites in the surrounding area and not the cost of removing and disposing of the asset being valued (for the purpose of replacement). The latter is discussed in BC104-BC106.

ACAG's concerns include:

- While some entities may have actually incurred the costs of removal and disposal of unwanted structures and therefore would have the relevant information, other entities may have inherited the land and infrastructure asset (e.g. from another public sector entity or a private sector developer) and therefore may not have the relevant information and would have to apply judgement and incur additional costs to estimate these hypothetical costs.

- It is unclear how the requirements in paragraph F15(b)(i) are meant to interact with the requirements in paragraphs F14(a) and F14(b) whereby the asset is replaced in the existing location, and does not presently exist. While it is assumed the asset does not presently exist it is unclear what to assume are the conditions surrounding the asset and how wide the surrounding area could be when considering the availability of suitable vacant sites if a market participant buyer was to instead construct the subject asset. For example, would this need to be within an area that still allows the asset to meet its service objectives? Overall, ACAG believes the interaction between these assumptions should be further clarified to avoid inconsistent practice and measurement challenges.
- If we adopt the premise in paragraph BC102(b) that acquiring the subject asset would save a market participant buyer from incurring those removal and disposal costs, then what should an entity look to when estimating this cost? Should the entity be looking at the surrounding built environment to make an estimate of this cost (or to determine if it is required at all) or property directly adjacent to the subject asset or to the assets that were previously on the site (even if this was an asset of similar nature and use)?

  As an example, a stadium has been demolished (old stadium) and a new stadium is constructed in its existing location. Based on the implementation guidance in the ED, when valuing the new stadium there is an assumption that the stadium will be replaced in its current location (paragraph F14(a)) and that it does not presently exist (paragraph F14(b)). However, it is not clear in this circumstance whether the costs of removing and disposing of unwanted structures at the measurement date would capture the cost of removal and disposal of the old stadium or if it would capture the cost of removal and disposal of typical structures that exist on surrounding properties? Or in this circumstance, if assessing from a market buyer perspective, would it be the approach that derives the lowest (avoided) cost outcome? An Illustrative Example would be helpful in clarifying this principle.
- In BC106, the Board did not rule out inclusion of the costs of dismantling the asset and restoring the site on which the asset is located. However, recognition of such costs would clearly contradict the principle that the asset does not presently exist. Therefore, it would seem appropriate to clearly articulate that these costs should not be recognised, unless an obligation has arisen under AASB 137 to restore the site, which would then trigger the accounting requirements in Interpretation 1.

Three ACAG jurisdictions also noted that the proposal in paragraph F15(b)(i) and BC102 was not common practice in those jurisdictions and sought clarification regarding whether the proposals being adopted were consistent with IVSC or similar requirements.

Determining disruption costs to other assets

ACAG notes that there may be some implementation challenges applying this principle, particularly for entities that control large, geographically dispersed infrastructure assets, such as roads authorities and local councils. ACAG also believes it would be appropriate to clarify the following with regard to F15(b)(ii):

- it is not written in a way that clearly excludes costs of restoring assets that are controlled by a consolidated group. It just clarifies that it includes (as part of the broader principle) costs of restoring an asset not controlled by the group. Paragraph BC112 indicates the intention is to exclude these costs. ACAG therefore suggest that paragraph F15(b)(ii) is re-written to ‘any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at measurement date, excluding costs of restoring assets that are controlled by the consolidated group (if any) to which the entity belongs’
- that the costs of restoring disruption to the entity's own assets in paragraph F15(b)(ii) should not be double-counted with the entity's existing valuation for those other assets.

Overall, ACAG recommends the AASB revisit the requirements in paragraphs F15(b) and BC 99 – BC106 and Illustrative Examples to provide further clarity on how these costs should be measured. ACAG also questions whether, in the light of the implementation challenges identified above costs outweigh benefits in relation to the F15(b)(i) and (ii) proposals.

SMC 14
Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity? Please provide reasons to support your view. Please note that Illustrative Examples 1 and 2 illustrate the application of paragraphs F14 and F15.

ACAG agrees with the proposal in paragraph F15(c) as a public sector entity may incur additional costs to meet community expectations, increase visitation to an asset or, through use of higher quality and cost materials, achieve a longer economic life for the subject asset.

However, as noted in SMC 10, paragraph F15(c) directly contradicts the principle in F14(b) to assume that the asset presently does not exist. The example in paragraph F15(c) of replacing the surface component contradicts the assumption under F14(b) that the whole road presently does not exist. Therefore, paragraph F14(b) and/or F15(c) need to be changed to achieve consistency.

Economic obsolescence

SMC 15
Do you agree with the proposal in paragraph F16 that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity? Please provide reasons to support your view.

ACAG agrees with the proposal in paragraph F16 that identifying obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity as this is consistent with paragraph 22 of AASB 13 which requires an asset's fair value to be measured using the assumptions that market participants would use when pricing an asset. A market participant would not pay to replace an asset's existing capacity if they could replace its service potential with an asset with reduced capacity.

ACAG notes in practice that it may be very difficult to find evidence to support the valuation of obsolescence and that the wording in paragraph F16 'has suffered a reduction in demand for its services' is open to interpretation.

SMC 16
Do you agree with the proposal in paragraph F17 and the example in paragraph F18 that economic obsolescence should not be identified for any 'surplus capacity' of an asset that is necessary for stand-by or safety purposes (e.g. to deal with contingencies), even if it seldom or never is actively utilised? Please provide reasons to support your view.

ACAG agrees that surplus capacity of an asset that is necessary for stand-by or safety purposes should not be identified as economic obsolescence even if it seldom or never is actively utilised.

ACAG has concerns with the example provided in paragraph F18 that considers economic obsolescence of a school purely based on enrolment numbers and suggests expanding the example to provide greater insight into how the asset values have been attributed in the economic obsolescence adjustment such as listing the assets:

- that are retained at the same gross replacement cost, given those facilities will be needed regardless of the school's number of enrolments (such as the administration office, cafeteria, toilet blocks, library, gym etc.) and other items that would likely fall into this category e.g. classrooms
- where the economic obsolescence adjustment has been applied, how this adjustment has been determined and why.

Application of the proposed implementation guidance

SMC 17
Do you agree with the proposal in paragraph AusC6.1 that the proposed authoritative implementation guidance set out in Appendix F should be applied prospectively? Please provide reasons to support your view.

ACAG agrees with the proposal in paragraph AusC6.1 that the proposed authoritative implementation guidance should be applied prospectively as:

- this is consistent with the initial application of IFRS 13. ACAG agrees with the IASB conclusion that changes in the methods used to measure fair value would be inseparable from a change in the fair value measurements (i.e. as new events occur or as new information is obtained, e.g. through better insight or improved judgement)
- the Board noted that the proposed authoritative implementation guidance clarifies the requirements of AASB 13, rather than changing those requirements (paragraph BC 182) and the proposals do not indicate that entities changing practice in how they measure those assets made an error in applying the existing requirements of AASB 13 (paragraph BC22)
- the fair value of an asset or liability applying AASB 13 is considered to be an accounting estimate which are accounted for prospectively (paragraph 32(c) of amendments to AASB 108 in *AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*).

SMC 18
If you agree with prospective application in Question 17, do you consider that it would be appropriate for the AASB to provide an option for an NFP public sector entity to elect to restate comparative information as if the authoritative implementation guidance in Appendix F had been applied from a preceding period? Please provide reasons to support your view.

Consistent with the initial application of IFRS 13, ACAG does not believe an option should be added to restate comparative information as if the authoritative implementation guidance has been applied from a preceding period.

In paragraph BC230 of IFRS 13 the IASB stated that the 'disclosures need not be presented in periods before initial application of the IFRS because it would be difficult to apply some of the requirements in IFRS 13 without the use of hindsight in selecting the inputs that would have been appropriate in prior periods.'

Restating comparative information is also inconsistent with the guidance in AASB 108 on applying changes to estimates which requires these to be adjusted prospectively.

SMC 19
If you consider it appropriate for the AASB to provide an option for an NFP public sector entity to restate comparative information (see Question 18), do you consider it appropriate that, if an entity elects to restate comparative information, it should be required to disclose the amount of the adjustment for each financial statement line item affected, as if the implementation guidance had: (a) always been applied (ie full retrospective application in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*); or (b) been applied from a specific preceding period, for example, the beginning of the immediately preceding period presented in the financial statements (ie modified retrospective application)? If so, please specify which preceding period you think would be appropriate. Please provide reasons to support your view.

ACAG does not believe it is appropriate to apply the implementation guidance retrospectively for the reasons outlined in SMC 18.

ACAG believes that option (a) full retrospective application will likely not be possible as valuations using the implementation guidance were not performed and sufficient data may not be available.

SMC 20
Further to Question 19, do you consider it would be appropriate for such optional restatements, if elected, to be required for all affected assets, except to the extent it is impracticable for the entity to determine either the period-specific effects of the implementation guidance or the cumulative effect of the change? Please provide reasons to support your view.

ACAG does not believe it is appropriate to apply the implementation guidance retrospectively for the reasons outlined in SMC 18.

SMC 21
Do you agree that the proposed authoritative implementation guidance set out in Appendix F should be applied for annual periods beginning on or after 1 January 2024, with earlier application permitted? Please provide reasons to support your view.

Yes, ACAG agrees that if the proposed implementation guidance set out in Appendix F is issued by December 2022 that it should be applied for annual reporting periods beginning on or after 1 January 2024. This timeframe should provide enough time for universities to implement the proposals by 1 January 2024 and the majority of the public sector by 1 July 2024.

AASB General Matters for Comment

GMC 22
Whether the *AASB Not-for-Profit Entity Standard-Setting Framework* has been applied appropriately in developing the proposals in this Exposure Draft?

Subject to our feedback on the SMCs, ACAG agrees that the NFP Framework has been applied appropriately.

GMC 23
Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

ACAG has not identified any GFS implications arising from the proposals, but suggests that the Board consider any matters raised in any ABS submission on ED 320.

As stated in SMC 2, two ACAG jurisdictions suggest that a GFS compliant valuation could be achieved more cost efficiently by giving an exemption from using the exit price approach and using an entry price approach.

GMC 24
Whether, overall, the proposals would result in financial statements that would be useful to users?

ACAG believes overall that the proposals will result in financial statements that would be useful to users subject to the Board addressing our concerns outlined in SMC 5, SMC 6, SMC 13 and SMC 14.

One jurisdiction’s view is that the implementation guidance, while an improvement, will not prevent the following differences in fair values derived by valuers:

- measurement of physical obsolescence – the guidance does not address how to measure physical obsolescence (e.g. proportion of useful life consumed to date or condition curve) and therefore valuers will continue with divergent practices. This jurisdiction suggests including additional paragraphs for how to measure each form of obsolescence, having regard to the guidance provided by paragraph 80 of IVS 105
- valuation of land subject to public sector specific restrictions – under the ED, valuers will continue with their previous judgements about the appropriate valuation technique to use and therefore material differences in fair value measurements will continue to occur. This jurisdiction has recommended changes that it believes will drive greater consistency in the selection of valuation techniques in SMC 2 and SMC 3.

This jurisdiction believes that the topics addressed by the guidance (market participants, highest and best use, greenfield versus brownfield; economic obsolescence) are often the subject of conceptual debate but in its experience have not led to material differences in outcomes between valuers. However, they believe the proposals for highest and best use (current use) and market participants are likely to reduce costs by not having to search for hypothetical situations.

This jurisdiction also believes that for non-financial assets not held primarily for their ability to generate net cash inflows, there are preferred alternatives to fair value that result in a similar outcome (including compliance with GFS) at a much lower cost. This jurisdiction recommends that the AASB amend AASB 116 to allow not-for-profit entities to use 'written-down current acquisition value' (paragraph 7.31 in the IMF GFSM and paragraph 8.38 of the AGFSM) for classes measured using the revaluation model. Written-down current acquisition value can be implemented by:

1. Expensing any inefficient costs from the cost of the asset at the time of construction
2. In each subsequent year:
   (a) recognise depreciation expense against accumulated depreciation/other obsolescence for the year.
   (b) revalue the gross carrying value for the subsequent change in a relevant and reliable construction index
   (c) revalue accumulated depreciation/other obsolescence for any:
      (i) change in gross carrying value
      (ii) change in estimated useful life
      (iii) obsolescence not captured by depreciation.

GMC 25
Whether the proposals are in the best interests of the Australian economy?

ACAG is not able to comment on whether these proposals are in the best interests of the Australian economy.

GMC 26
Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

ACAG believes that the proposals may create auditing and assurance challenges in the following areas:

1. Market participant assumptions – ACAG notes that there may be an incentive for entities to assess that information about market participants is not 'reasonably available' when it may be available to avoid market valuations in order to adopt their own assumptions as holder of the asset.
2. Determining whether management is committed at the measurement date to a plan to sell the asset or to use the asset for an alternative purpose – refer to ACAG's comments at SMC 5, SMC 6 and SMC 7.
3. Valuation challenges and divergent practices associated with measuring the unavoidable costs of removal and disposal or unwanted structures on land and disruption costs for restoring other assets – refer to ACAG's comments at SMC 13.

GMC 27
Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

ACAG is not able to comment on costs and benefits of the proposals.

AASB ED 320 – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

Specific matters for comment to the AASB by 30 June 2022

The following comments from the Australian Bureau of Statistics (ABS) follow on from the previous submission to ITC 45 in relation to fair value.

1. Do you consider that the proposed authoritative implementation guidance should be applicable also to NFP entities in the private sector? Please provide reasons to support your view.

The ABS has no view on how authoritative implementation guidance for accounting standards should be applied across sectors.

From a macroeconomic statistics perspective, the concepts of market value and fair value are applied consistently across all sectors of the economy.

2. Do you agree with the AASB's conclusion that determining appropriate measurement techniques for measuring the fair value of land and improvements on land subject to public-sector-specific legal restrictions is best regarded as relating to detailed valuation assessments and should not be mandated in Australian Accounting Standards (see paragraphs BC164–BC170)? Please provide reasons to support your view.

The ABS has no view on what should be mandated in Australian Accounting Standards.

From a macroeconomic statistics perspective, legal restrictions should be taken into account when measuring the fair value of an asset, if market participants would take those same restrictions into account when pricing the asset.

Market participant assumptions

3. In respect of the assumptions used in measuring the fair value of a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, do you agree with the proposals in paragraphs F4–F7 that:

   (a) if the market selling price of an identical asset is directly observable, that price (which incorporates implicitly the assumptions that other market participants would use when pricing the asset, negating the need to identify those assumptions) should be used to estimate the fair value of the asset; and

   (b) if the market selling price of an identical asset is not directly observable, the entity would need to explicitly estimate the pricing assumptions that other market participants would use. In this case, to maximise the use of relevant observable inputs and minimise the use of unobservable inputs:

      (i) if all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity should use those assumptions in measuring the fair value of the asset; or

      (ii) if not all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity would need to develop unobservable inputs in measuring the fair value of the asset. When applying paragraph 89 to develop unobservable inputs, the entity should use its own assumptions as a starting point and make adjustments to those assumptions if reasonably available information indicates that other market participants would use different data; or

(iii) if no relevant information about other market participant assumptions is reasonably available, the entity should use its own assumptions in measuring the fair value of the asset?

Please provide reasons to support your view.

The ABS agrees with the proposals in paragraphs F4–F7.

The ABS supports general principles of valuation, where a valuation technique is applied that is appropriate to individual circumstances and for which sufficient data are available to measure fair value.

These valuations should maximise where possible the use of observable prices for comparable assets or relevant observable inputs for pricing assumptions that would be used by market participants.

4. Paragraph F8 provides examples of assets for which:

(a) market selling prices of an identical or a comparable asset are unlikely to be directly observable; and

(b) no relevant information about different assumptions of other market participants is likely to be reasonably available.

Do you agree with the examples in paragraph F8? Please provide reasons to support your view.

The ABS agrees with the examples in paragraph F8.

These examples provide practical case studies in applying the previously described guidance.

Highest and best use

5. Do you agree with the proposal in paragraphs F9–F11 that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13 paragraph 29 that the 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? Please provide reasons to support your view.

The ABS disagrees with the proposal in paragraphs F9–F11. From a macroeconomic statistics perspective, committed 'to a plan' is not an explicit concept that can be applied.

When an entity's management has fully committed to sell the asset or to use the asset for an alternative purpose, the impact of this economic decision should be reflected in the valuation of the asset from that point in time forward when the asset is ready for sale.

6. Do you agree with the example in paragraph F10 of steps that might, in some circumstances of a particular entity, need to be completed before the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or use the asset for an alternative purpose, namely:

(a) relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide;

(b) initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and

(c) development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose?

Please provide reasons to support your view.

The ABS disagrees with the example in paragraph F10, based on concerns with the proposal in paragraphs F9–F11.

7. Do you agree with the proposal in paragraph F12 that an entity is only required to assess whether a use of the asset is physically possible, legally permissible and financially feasible in accordance with paragraph 28 when (per paragraph F9) the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted? Please provide reasons to support your view.

The ABS disagrees with the proposal in paragraph F12, as further clarification is required.

8. Do you agree with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use' concept described in AASB 13 paragraph 28(c), namely that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, a use is financially feasible if market participants (including NFP public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services? Please provide reasons to support your view.

The ABS has no comment on this question, as the 'financially feasible use' concept is not used in macroeconomic statistics.

Application of the cost approach

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

9. Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location? Please provide reasons to support your view.

The ABS agrees with the proposal in paragraph F14(a).

When measuring fair value of an asset, an entity should take into account particular characteristics of the asset if market participants would take those same characteristics into account when pricing the asset, including the current location of the asset.

10. Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? Please provide reasons to support your view.

The ABS has no comment on this question.

11. Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (ie a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Please provide reasons to support your view.

The ABS has no comment on this question.

12. Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.

The ABS agrees with the proposal in paragraph F15(a).

From a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs.

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

    (a) unavoidable costs of removal and disposal of unwanted existing structures on land; and

    (b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs?

    Please provide reasons to support your view.

The ABS agrees with the proposal in paragraph F15(b).

From a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs.

14. Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity? Please provide reasons to support your view.

    Please note that Illustrative Examples 1 and 2 illustrate the application of paragraphs F14 and F15.

The ABS agrees with the proposal in paragraph F15(c).

From a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs.

Economic obsolescence

15. Do you agree with the proposal in paragraph F16 that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity? Please provide reasons to support your view.

The ABS agrees with the proposal in paragraph F16.

From a macroeconomic statistics perspective, identifying economic obsolescence would not be limited to circumstances where a formal decision has been made to reduce the asset's physical capacity.

16. Do you agree with the proposal in paragraph F17 and the example in paragraph F18 that economic obsolescence should not be identified for any 'surplus capacity' of an asset that is necessary for stand-by or safety purposes (eg to deal with contingencies), even if it seldom or never is actively utilised? Please provide reasons to support your view.

The ABS has no comment on this question, as the 'surplus capacity' concept is not used in macroeconomic statistics.

Application of the proposed implementation guidance

17. Do you agree with the proposal in paragraph AusC6.1 that the proposed authoritative implementation guidance set out in Appendix F should be applied prospectively? Please provide reasons to support your view.

From a macroeconomic statistics perspective, in principle any material change to the valuation of assets must be applied consistently, both retrospectively and prospectively. Unless the new valuation is still deemed to reflect an appropriate market value equivalent.

The ABS understands that changes to Accounting Standards are typically only applied prospectively.

18. If you agree with prospective application in Question 17, do you consider that it would be appropriate for the AASB to provide an option for an NFP public sector entity to elect to restate comparative information as if the authoritative implementation guidance in Appendix F had been applied from a preceding period? Please provide reasons to support your view.

The ABS has no comment on this question, based on the reasons noted above in Q17.

To understand the impact of reporting changes, the ABS would request comparable information from data providers if a material change in the valuation of assets has occurred.

19. If you consider it appropriate for the AASB to provide an option for an NFP public sector entity to restate comparative information (see Question 18), do you consider it appropriate that, if an entity elects to restate comparative information, it should be required to disclose the amount of the adjustment for each financial statement line item affected, as if the implementation guidance had:

    (a) always been applied (ie full retrospective application in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors); or

    (b) been applied from a specific preceding period, for example, the beginning of the immediately preceding period presented in the financial statements (ie modified retrospective application)? If so, please specify which preceding period you think would be appropriate.

    Please provide reasons to support your view.

The ABS has no comment on this question, based on the reasons noted above in response to Q17.

To understand the impact of reporting changes, the ABS would request comparable information from data providers if a material change in the valuation of assets has occurred.

20. Further to Question 19, do you consider it would be appropriate for such optional restatements, if elected, to be required for all affected assets, except to the extent it is impracticable for the entity to determine either the period-specific effects of the implementation guidance or the cumulative effect of the change? Please provide reasons to support your view.

The ABS has no comment on this question, based on the reasons noted above in response to Q17.

To understand the impact of reporting changes, the ABS would request comparable information from data providers if a material change in the valuation of assets has occurred.

21. Do you agree that the proposed authoritative implementation guidance set out in Appendix F should be applied for annual periods beginning on or after 1 January 2024, with earlier application permitted? Please provide reasons to support your view.

The ABS has no comment on this question.

General matters for comment

The AASB would also particularly value comments on the following general matters:

22. Whether the AASB Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

The ABS has no comment on this question.

23. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

Any change to the existing fair value approach as currently applied under AASB 13 could carry additional costs for the ABS to prepare alternative fair value (market value equivalent) measures for assets, to retain coherence with existing valuations in GFS and the National Accounts.

These costs may also be passed onto GFS data providers, as the ABS seeks a continuation of the existing measurement basis in GFS data provision.

These costs would be reduced if the new valuation approach is still deemed to reflect an appropriate market value equivalent.

24. Whether, overall, the proposals would result in financial statements that would be useful to users?

The ABS has no comment on this question.

25. Whether the proposals are in the best interests of the Australian economy?

The ABS has no comment on this question.

26. Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

The ABS has no comment on this question, other than what is noted above in response to Q23.

27. Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements

The ABS is unable to provide a quantitative estimate but as stated above, any change to the existing fair value approach as currently applied under AASB 13 could carry additional costs for the ABS to prepare alternative fair value (market value equivalent) measures for assets to retain coherence with existing valuations in GFS and the National Accounts.

These costs may also be passed onto GFS data providers, as the ABS seeks a continuation of the existing measurement basis in GFS data provision, unless the new valuations are still deemed by the ABS to reflect an appropriate market value equivalent.

Ref: Liquid Pacific - ED320 Comment

asset consultants

The Board
Australian Accounting Standards
PO Box 204
Collins St West
VIC 8007

Dear Sirs/Mesdames,

Re: ED 320 - Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

In response to a public invitation, Liquid Pacific submits its responses to questions and topics raised in ED320.

This response is framed by Liquid Pacific's experience in the valuation of non-financial assets for inclusion in financial statements. Liquid Pacific's members are professional independent valuers accredited by the Royal Institution of Chartered Surveyors as Chartered Valuation Surveyors and the Australian Property Institute as Certified Practicing Valuers.

We wish to stress; accredited valuation professionals are providers of independent advice. The independence of the valuation profession is recognised in legislation and valuations are considered by the courts as legal documents. When providing fair values (market value) for use in financial statements, the accredited valuer is assisting their client to fulfil their regulatory requirements. They are not acting as consultants or advocates for their clients and have no pecuniary interest in the valuation outcome.

We make these pronunciations because many public sector entities are unaware that valuation is a profession with its own set of international standards. That valuers are regulated and recognised by legislation to fulfil the requirements of providing professional valuation advice.

The context in which we provide comment on the important topics set-out in ED 320 pivot on the following valuation principles.

1. Fair value and market value are one in the same
2. All valuation methodologies result in the same fair value (i.e., Market Approach = Income Approach = Cost Approach).
3. Under the same assumptions, there cannot be more than one fair value
4. Fair value reflects an asset's highest and best use

Thank you for the opportunity to address the issues raised in this exposure draft and we trust the consultation will bring about any necessary changes which will benefit both the reporting entities and the users of financial statements

Yours faithfully

………………………………………………
Martin Burns
Director: Liquid Pacific
Chartered Valuer, RICS,
Certified Practicing Valuer, AAPI

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For context, Government is the largest single owner and manager of assets in Australia. There are in excess of 5,000 public sector entities, (not all are NFP's or reporting entities in their own right), and the Australian Bureau of Statistics estimates these entities hold assets with a value of some $2.74 trillion. For comparison, the total capitalised value of Australia's 200 ASX listed companies is $2.19 trillion (depending on the day).

SPECIFIC MATTERS FOR COMMENT

Scope

1. *Do you consider that the proposed authoritative implementation guidance should be applicable also to NFP entities in the private sector? Please provide reasons to support your view.*

   Liquid Pacific considers if it is decided a guidance is required, then there should be only one guidance for Fair Value Measurement, and it be applicable to all reporting entities, not just the public sector. The principles of valuation hold regardless of which sector controls an asset.

   It follows, Liquid Pacific has issue with the concept an asset may have a different fair value (market value) dependent on who owns the asset or the purpose for which it is held. It is inconceivable that should an asset pass from one entity to another, the value of that asset may move up or down dependent on who the new owner is. Or, even more disconcerting, the value of an asset may change dramatically only when the owner of that asset decides it no longer wishes to hold the asset.

2. *Do you agree with the AASB's conclusion that determining appropriate measurement techniques for measuring the fair value of land and improvements on land subject to public-sector-specific legal restrictions is best regarded as relating to detailed valuation assessments and should not be mandated in Australian Accounting Standards (see paragraphs BC164–BC170)? Please provide reasons to support your view.*

   The legal, technical, and economic framework in which assets exist (all assets) is constantly evolving. The methodologies used to value assets are also evolving to meet these changes, and so we do not see how mandating measurement techniques could ensure a consistent and contemporary approach to the fair value measurement of assets for any ownership group.

Market participant assumptions

3. *In respect of the assumptions used in measuring the fair value of a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, do you agree with the proposals in paragraphs F4–F7 that:*

   (a) if the market selling price of an identical asset is directly observable, that price (which incorporates implicitly the assumptions that other market participants would use when pricing the asset, negating the need to identify those assumptions) should be used to estimate the fair value of the asset; and

   (b) if the market selling price of an identical asset is not directly observable, the entity would need to explicitly estimate the pricing assumptions that other market participants would use. In this case, to maximise the use of relevant observable inputs and minimise the use of unobservable inputs:

      (i) if all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity should use those assumptions in measuring the fair value of the asset; or

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(ii) *if not all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity would need to develop unobservable inputs in measuring the fair value of the asset. When applying paragraph 89 to develop unobservable inputs, the entity should use its own assumptions as a starting point and make adjustments to those assumptions if reasonably available information indicates that other market participants would use different data; or*

(iii) *if no relevant information about other market participant assumptions is reasonably available, the entity should use its own assumptions in measuring the fair value of the asset?*

We agree the prime objective of the valuation methodology is to define a fair value (market value) by reference to markets. We disagree that an entity would not find any relevant information on which to base their assumptions.

Further, it is not clear in the above paragraphs what alternatives the AASB is contemplating when it states *the entity should use its own assumptions in measuring the fair value of the asset*. Does this mean the entity should not adopt another entity's assumptions? Or reject WoG policies which mandates assumptions?

From a valuer's experience, fair values (market values) can vary dramatically depending on the underlying assumptions adopted for a valuation. In undertaking valuations for fair value (market value) it is part of the valuer's task to recognise and adopt the relevant assumptions which are realistic and reflect those of market participants.

Where significant variations in fair values (market values) for similar assets occur across the same sector, it is typically the assumptions adopted by the reporting entity which are the root cause. Unfortunately, we do encounter assumptions which are designed to present an entity's financial statements in a favourable light (i.e., Residual Value AASB TAD 2015) and as long as entities seek to adopt these assumptions there will always be divergence in fair values.

Liquid Pacific considers only those professionals with expertise in the valuation of assets can provide relevant and point-in-time valuations which reflect the valuation framework at the date of valuation.

4. *Paragraph F8 provides examples of assets for which:*

   (a) *market selling prices of an identical or a comparable asset are unlikely to be directly observable; and*
   (b) *no relevant information about different assumptions of other market participants is likely to be reasonably available.*

Do you agree with the examples in paragraph F8? Please provide reasons to support your view.

"F8 Examples of assets for which market selling prices of an identical or a comparable asset are unlikely to be directly observable and no relevant information about different assumptions of other market participants is likely to be reasonably available include infrastructure (eg roads, drainage and sewerage works), prisons, parliament houses, fire stations, police stations, war memorials, traffic or pedestrian facilities, community facilities (eg toilet blocks) and most defence weapon platforms."

We disagree with the premise some assets cannot be valued with reference to market forces.

For valuers, the question of what is observable and what is unobservable is not just defined by the market for the asset type being valued but all markets for assets of a similar nature. When valuing an asset, a valuer will seek to place an asset into a relevant market framework. If a direct market for an asset does not appear to provide all the information required to assist with formulating an opinion of value, they will likely reference a secondary or sub-market looking for additional information, and so on.

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As an example, the valuation of an industrial unit in a location where few industrial properties exist. The valuer may need to consider the income approach to valuation if there is an investor market and/or sales of industrial units to establish a value by direct comparison (market approach). If there is little information on industrial unit rents and purchase yields, and/or limited sales information, a valuer may seek to set boundaries on the potential value of the industrial unit by referencing financial returns and sales of commercial and/or retail units. In this way, the valuer has accessed the secondary markets of commercial and retail properties to assist in narrowing the potential value of the industrial unit.

Similarly, the valuation of public sector assets can be derived from alternative markets. Purchasers willing to spend hundreds of millions, or even billions of dollars on large unique assets (such as network infrastructure) have a range of assets which are comparable, where comparability is defined by the purchaser's investment criteria. An entity contemplating purchasing an Australian electricity network (poles and wires) will likely look at a range of international projects for which returns are comparable, regardless of the asset type. It would therefore be relevant to investigate the market returns evidenced from large infrastructure transactions, to determine the market forces which would lead to an asset's fair value (market value).

The examples listed in F8 do not always constitute assets *'not held primarily for their ability to generate net cash inflows'*. For example, a number of water authorities deliver significant profits to the entity and Government (by way of dividends) and use the income approach to value their asset base. However, even if assets are not held primarily for their ability to generate net cash inflows, doesn't mean they are incapable of doing so. Valuers can impute cashflows by comparing these assets to similar assets in the marketplace and derive fair values accordingly.

The emergence of public private partnerships, (and variations thereof), to construct, own and manage public sector assets has also given rise to market inputs which would assist in the valuation of what have historically been referred to as specialised assets. For example, there are a number of prisons in Australia owned and operated by private entities on behalf of Government which would indicate there is a 'market' for prisons.

Further, the examples provided at F8 imply the assets (and asset types) are ones that have no relevant market influences. This implication appears to be based upon a perception the asset is providing a unique service delivery not found in the marketplace. The approach of categorising assets by their service delivery fails to recognise an asset's actual use. By componentising an asset's use, a valuer can begin to recognise which components of the asset may be influenced by market forces.

Parliament houses are typically ornate heritage listed buildings in premium locations. But their main use has become the provision of administrative offices. Commercial buildings are valued excluding the tenant's fit-out, therefore the fair value of a Parliament House may be loosely referenced to office accommodation in a similar location whilst adding back the depreciated replacement cost of the House's unique structural modifications and fit-out. Such an approach may not completely define an asset's fair value (market value), but it does reference market inputs and helps set value boundaries.

Similarly, the majority of the floor space in a police station is used for office accommodation and/or recreation. Suburban fire stations and ambulance depots closely reflect office/warehouses and car repair workshops, regional country fire services are more often sheds with attached offices, and community facilities are usually defined by their fit-out rather than the building itself.

As an example, a Local Government client purchased a modern ground floor retail strata unit and fitted it out to be the local library. The only specialised aspect of that asset was the fit-out (as is the case with most libraries).

Liquid Pacific considers the framework by which a valuation is to be conducted and the inputs deemed relevant to that determination of value is a highly complex one. Attempting to categorise assets for inclusion and exclusion to specific valuation techniques would lead to erroneous implementations.

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Highest and best use

5. *Do you agree with the proposal in paragraphs F9–F11 that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13 paragraph 29 that the 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? Please provide reasons to support your view.*

Liquid Pacific understands the resistance within the public sector to the concept of highest and best use as it relates to the valuation of public sector assets. The costs associated with the provision of community service obligations are never more transparent than when a new public sector asset is valued at less than its cost of acquisition. And, when the continuing use of a community asset is deemed not to be that asset's highest and best use.

Nonetheless, it is assumed for most public sector entities obtaining and reporting asset fair values (market value) is more than just a policy requirement. That entities use the information provided to manage their assets and to allocate scarce public funds.

It is therefore difficult to imagine how management could competently assess the continuing delivery of a service provision if they are not able to assess the cost of that provision against the fair value (market value) of the asset employed to deliver it if that fair value does not reflect markets.

We understand in certain circumstances the public sector must create or hold assets contrary to what commercial management decisions might otherwise suggest. Regardless, users of financial statements should have the ability to identify the actual cost associated with a service delivery, not one that is artificially created.

6. *Do you agree with the example in paragraph F10 of steps that might, in some circumstances of a particular entity, need to be completed before the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or use the asset for an alternative purpose, namely:*

   (a) *relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide;*
   (b) *initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and*
   (c) *development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose?*

Regardless of the question of highest and best use, we assume a process similar to this is already best practice within Government.

7. *Do you agree with the proposal in paragraph F12 that an entity is only required to assess whether a use of the asset is physically possible, legally permissible and financially feasible in accordance with paragraph 28 when (per paragraph F9) the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted? Please provide reasons to support your view.*

No. Per above

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8. *Do you agree with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use' concept described in AASB 13 paragraph 28(c), namely that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, a use is financially feasible if market participants (including NFP public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services? Please provide reasons to support your view.*

No. By introducing non-financial influences into the concept of financial feasibility significantly distorts the meaning of financial feasibility. With regard to non-financial assets, financial feasibility is the possibility an asset might provide a commercial return on its construction and/or continuing use or in an alternative use, where the financial return is benchmarked in markets. The other legs of highest and best use, physically possible and legally permissible, are the necessary and adjustable variables to finding the highest financial return.

It is recognised the public sector does not necessarily make investment decisions based upon the concept of highest and best use. However, users of financial statements should be provided the opportunity to identify when this occurs.

Application of the cost approach

For the valuation profession the cost approach is the approach of last resort. The approach lacks economic relevance as it fails to address the economic relationship which exists between inter-dependent assets (i.e., land and buildings). It makes no allowance for project financing and risk, it has no investment horizon, it does not address maintenance and holding costs, and is typically an additive model, rather than one of deduction.

9. *Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location? Please provide reasons to support your view.*

Yes. The concept of modern equivalent cost has for some time been take out of context and the issue of location is at the forefront of this distortion. Feeding into previous comments above regarding asset management and highest and best use, we struggle to recognise how the true cost of service delivery can be identified using values based upon hypothetical assets.

We have found the problem is not just restricted to the question of location but also extends to assets themselves. Under the umbrella of modern equivalent replacement cost we have encountered public sector entities valuing alternative assets, rather than valuing the assets they own. Several examples we have encountered saw entities basing their valuation of bitumen sealed roads on graded unsealed roads. In these instances, the entities believed the concept of modern equivalent replacement cost included redefining your asset base with what you might replace the asset with, rather than what is currently there.

10. *Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? Please provide reasons to support your view.*

Yes, with qualifications. Land is not valued based upon the replacement cost approach to valuation. It is valued on the basis of direct comparison with market transactions, adjusted for dissimilarities. Therefore, the initial acquisition cost of land to establish infrastructure (i.e., railway) or a national park or reserve is highly unlikely to equate to its fair value (market value) after acquisition.

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And, upon subsequent revaluations, the land is assumed to be available for that purpose. (i.e., the costs of acquisition do not replicate themselves).

It is also noted some entities add professional fees (i.e., legal costs/conveyancing fees) back into land values at acquisition. The market value of land (based on comparable sales) already factors such costs into the value.

11. *Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (ie a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Please provide reasons to support your view.*

Yes, again with qualifications. We consider the primary objective of the entity should be to reflect, to the best of their ability, the value of the asset they own which necessarily encapsulates all the value influencing characteristics of that asset.

However, we do not agree the replacement cost of an existing asset should be referenced to a modern equivalent asset if a cost for the replica of the asset being valued is available.

We agree, if a modern equivalent replacement cost must be used for the purpose of the cost approach to valuation, adjustments to that reference cost must be made to reflect the service capacity of the subject asset, when new. How those adjustments are made is likely to be based on an informed estimate.

12. *Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.*

With reference to our comments in 10 above; land values derived by reference to market transactions usually already reflect the costs of demolition as comparable land transactions have accounted for demolition in their sale values. There are however situations where the public sector will incur excessive demolition costs for projects such as the creation of inner metropolitan transport routes. When such costs are incurred, they should not be factored into either the value of the land or the costs of constructing the new infrastructure asset.

As an example, Transport Services acquires several significant land holdings comprising multi-storey office buildings (not at the end of their economic life) for the purpose of establishing a new public transport route. The cost of acquiring the land is \$250m and the cost of demolishing the structures is \$50m. The acquisition provides 2,500m2 of new land for the transport corridor. In this example, the value of the land is not the cost of acquisition \$250m (\$100,000m^2), nor, for the purpose of valuation, is the cost of building the transport route escalated by the cost of demolition (\$X+\$50m). For the purpose of valuation, these are sunk costs because the development of the transport corridor was not the highest and best use of the land at the time of acquisition (i.e., in these situations the market would rarely compensate the new asset's fair value for the costs incurred to construct it).

Whereas, if the construction of the transport route required a tunnel through a hill or another similar one-off infrastructure cost, then we consider that cost should form part of the gross replacement cost for the cost approach to valuation. The test being the component is a continuing use of the asset and exists in its highest and best use, for which a market participant may attribute some value against that initial cost.

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

    (a) unavoidable costs of removal and disposal of unwanted existing structures on land; and
    (b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs?

    Please provide reasons to support your view.

Our comments in 12 above address this topic. However, we would clarify, in a commercial environment the fair value (market value) of an asset constructed for the purpose of selling for profit would factor into its sale price any costs associated with the development, including the mandatory costs of restoring an asset not controlled by the developer. And, a further resale of that commercial asset continues to embody those costs.

14. *Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity? Please provide reasons to support your view.*

No. Whilst valuations need to reflect the assets being valued, they also need to be realistic. If a market participant prices the cheapest legally permitted costs to construct an asset that delivers the same service potential, then they will likely take that path, assuming all other factors remain the same (i.e., future maintenance costs, asset lives, etc).

With regard to example 1 and 2 in the ED, the underlying assumption for these examples is that cost equates to value. Local Government tends not to depreciate road earthworks or formation under the assumption these components exist in perpetuity. It also effectively lowers depreciation expense.

Economic obsolescence

15. *Do you agree with the proposal in paragraph F16 that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity? Please provide reasons to support your view.*

Yes. Valuation practice requires assets be valued based upon market evidence which necessarily includes supply and demand considerations. At the date of valuation, the demand for an asset's service potential should be measured against the demand for all similar assets and against the asset's own historical demand and future potential.

We note for the public sector's relevant valuation dates during a period of COVID (2019 – 2021), we could find no Government jurisdiction that amended asset values due to the changing economic climate brought on by the pandemic.

Further, we analysed the movement in asset values for 12 of Australia's largest universities for the period 31 Dec 2091 – 31 Dec 2020, a time when universities themselves were forecasting the loss of billions of dollars in revenue due to a reduction in international student numbers. Not one of these universities reported a decrease in the value of their non-financial assets, nor addressed potential value adjustments due to COVID.

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When the subject was raised with a state audit department, we were advised there would have to be a crisis in Australia similar to that in the Ukraine, before their audit department would expect to see Government's non-financial asset values impacted by economic factors. In light of those comments, the topic of economic obsolescence is somewhat benign.

16. *Do you agree with the proposal in paragraph F17 and the example in paragraph F18 that economic obsolescence should not be identified for any 'surplus capacity' of an asset that is necessary for stand-by or safety purposes (eg to deal with contingencies), even if it seldom or never is actively utilised? Please provide reasons to support your view.*

    Yes. Many assets are initially over-engineered to ensure service delivery does not wane over time and many assets operate at industry accepted vacancy levels (i.e., have surplus capacity). The test for the valuer is whether the surplus capacity is necessary.

    In relation to the school example set out in F18, our immediate conclusion is an asset permanently operating at 20% of its capacity is not operating at its *highest and best use*.

    And, whilst we agree economic obsolescence should be recognised in the school example, we do not agree on the method that has been used to recognise that obsolescence. As with previous comments, the approach in the example is considered by many entities to be a factor of a modern equivalent replacement cost, when it is not. The objective of conducting a valuation for fair value is to value the asset having regard to its future economic benefits, which requires the existing asset to be valued, not a hypothetical replacement.

    The school example is obviously simplified and only intended to demonstrate a point. But, trying to account for obsolescence at the front end of the cost approach by adjusting the gross replacement cost requires significantly broad assumptions about the asset being valued (i.e. proportionality) and ignores what market participants might factor into their decision when considering the asset on as 'as is' basis (i.e. excessive maintenance and holding costs of surplus assets, continuing decline in student numbers, potential for sale of surplus land, co-location opportunities, etc).

Application of the proposed implementation guidance

In response to Para 17-21, Liquid Pacific does not support the implementation of an owner specific guidance if that guidance seeks to differentiate fair values only for that group.

General matters for comment

Whether, overall, the proposals would result in financial statements that would be useful to users?

As previously stated, Liquid Pacific considers supporting the use of artificial fair values by ignoring market influences and the highest and best us of assets only contributes to erroneous interpretations of an entity's financial health and management performance.

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7 July 2022

The Chair
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

via email: standard@aasb.gov.au

Dear Keith,

AASB Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

Deloitte is pleased to respond to the Australian Accounting Standards Board ('AASB' or 'Board') Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* (ED 320). We appreciate the opportunity to comment on this Exposure Draft to ensure the proposals as a whole address the specific concerns raised by stakeholders and issues we have observed in practice.

We agree with the majority of the proposals in ED 320, and we note that for the project to be successful in reducing divergence in practice, it will be critical for financial reporting professionals to work closely with valuations professionals in implementing the proposed guidance.

However, we do hold concern over the proposals regarding the consideration of obsolescence in determining fair value. We are of the view that until the appropriate level of the entity's management is committed to reducing an asset's physical capacity there should not be any estimate of obsolescence included in a fair value measurement. In our opinion, to endeavour to build estimates of obsolescence into fair value where a decision has not been made would be time consuming, costly, and does not truly represent the characteristics of public service assets, which by their nature will have fluctuations in demand for their use over time.

Our detailed responses to the specific matters for comment in the exposure draft are outlined in the Appendix.

Please contact me at +61 9671 7871 or moverton@deloitte.com.au if you wish to discuss any of our comments.

Yours sincerely

Moana Overton
Partner

APPENDIX – DETAILED RESPONSE TO THE AASB REQUEST FOR COMMENTS IN ED 320

Proposed guidance for Public Sector Not-for-Profit entities on the application of AASB 13 *Fair Value Measurement*

Scope

1. **Do you consider that the proposed authoritative implementation guidance should be applicable also to Not-for Profit (NFP) entities in the private sector? Please provide reasons to support your view.**

   No, we do not consider that the proposed authoritative implementation guidance should be applicable to NFP entities in the private sector. The guidance has been drafted to address specific issues within the public sector that arise primarily because of the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* paragraph 13 which require most non-financial assets of public sector entities to be subsequently measured at fair value. NFP entities in the private sector generally have greater discretion in electing to carry assets at fair value, and in our experience those entities are significantly more likely to choose a cost approach.

   Because the guidance is developed with the specific circumstances of entities in the public sector in mind, we think there is a risk that unintended outcomes could arise if NFP entities in the private sector were mandatorily required to apply the guidance set out in ED 320. Instead, we think a better approach would be to not extend the scope, allowing NFP entities in the private sector that do elect to measure their non-financial assets at fair value to access this guidance through application of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to the extent it would be relevant to their specific circumstances. This approach would appropriately permit such entities to consider other appropriate accounting policies rather than being required to apply a methodology explicitly developed for a different sector.

2. **Do you agree with the AASB's conclusion that determining appropriate measurement techniques for measuring the fair value of land and improvements on land subject to public-sector-specific legal restrictions is best regarded as relating to detailed valuation assessments and should not be mandated in Australian Accounting Standards (see paragraphs BC164–BC170)? Please provide reasons to support your view.**

   We agree with the AASB's proposal that determining the appropriate measurement technique for measuring the fair value of land and improvements on land is best regarded as relating to valuation assessments and should not be mandated in Australian Accounting Standards. AASB 13 was drafted to support valuation professionals in performing fair value measurements to be used in financial reporting. We concur with the Board's observations that in developing AASB 13 (and IFRS 13 *Fair Value Measurement* on which AASB 13 is based), mandating a single valuation technique was considered but rejected on the basis that fair value measurement is for a particular asset (AASB 13 paragraph 11) and determining the appropriateness of a particular valuation technique requires judgement in each circumstance, even for similar assets (IFRS 13 paragraph BC142). With reference to the *AASB's Not-for-Profit Entity Standard-Setting Framework,* we are not aware of any argument that would suggest the AASB should amend this principle for NFP entities in the public sector.

   Consistent with the conclusions reached by the AASB in ED 320 paragraph BC170, if there is desire for greater consistency in the valuation approaches used to measure the fair value of particular types or classes of non-financial assets in a jurisdiction, Treasury, Finance Departments or other authorities could designate this through financial reporting guidance relevant to those jurisdictions. The role of accounting and financial reporting should not, in our opinion, interfere with the professional expertise of valuation professionals.

Market participant assumptions

3. **In respect of the assumptions used in measuring the fair value of a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, do you agree with the proposals in paragraphs F4-F7 that:**

(a) if the market selling price of an identical asset is directly observable, that price (which incorporates implicitly the assumptions that other market participants would use when pricing the asset, negating the need to identify those assumptions) should be used to estimate the fair value of the asset; and
(b) if the market selling price of an identical asset is not directly observable, the entity would need to explicitly estimate the pricing assumptions that other market participants would use. In this case, to maximise the use of relevant observable inputs and minimise the use of unobservable inputs:

(i) if all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity should use those assumptions in measuring the fair value of the asset; or
(ii) if not all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity would need to develop unobservable inputs in measuring the fair value of the asset. When applying paragraph 89 to develop unobservable inputs, the entity should use its own assumptions as a starting point and make adjustments to those assumptions if reasonably available information indicates that other market participants would use different data; or
(iii) if no relevant information about other market participant assumptions is reasonably available, the entity should use its own assumptions in measuring the fair value of the asset?

Please provide reasons to support your view.

We agree with these proposals. In many instances, due to the nature of the assets in question, there is no obvious market for these assets. In such instances, using the entities own assumptions is a reasonable position to take, particularly given many of these assets are often highly specialised, and consequently the inputs arising from identified external market participant assumptions are unlikely to be relevant or reliable (if available at all).

We are of the view that the proposals provide a useful framework to ensure NFP entities in the public sector are considering market participant assumptions where they are available, but are not burdened with trying to identify assumptions that practically may not exist. In our opinion, the guidance as drafted will provide clarity in the steps to be taken to measure the fair value of a non-financial public sector asset in a cost effective and efficient manner.

4. Paragraph F8 provides examples of assets for which:

(a) market selling prices of an identical or a comparable asset are unlikely to be directly observable; and
(b) no relevant information about different assumptions of other market participants is likely to be reasonably available.

Do you agree with the examples in paragraph F8? Please provide reasons to support your view.

We agree the examples provided in paragraph F8 are the types of assets where market prices are unlikely to be observable and that no relevant information about different assumptions of other market participants is likely to be reasonably available.

Highest and best use

5. Do you agree with the proposal in paragraphs F9–F11 that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13 paragraph 29 that the 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? Please provide reasons to support your view.

We agree with the proposal in paragraphs F9-F11 regarding the rebuttable presumption that the current use is the highest and best use. We consider this to be appropriate because in the public sector, the decision to change the use of an asset can often be a protracted process, and as such to consider the highest and best use of an asset as different from its current use would be costly and burdensome in the valuation process. In our opinion any attempt to incorporate a different use for the asset prior to management's commitment to change its use or sell the asset would add significant cost to the valuation exercise, and open the possibility that the valuation changes significantly in future periods if the plans or expectations are altered, which is not an uncommon occurrence in the public sector. We further note that because of the specialisation of the assets in question, an asset's current use would often also be its highest and best use (because there may be limited alternate uses for the specialised asset).

6. **Do you agree with the example in paragraph F10 of steps that might, in some circumstances of a particular entity, need to be completed before the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or use the asset for an alternative purpose, namely:**
   (a) **relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide;**
   (b) **initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and**
   (c) **development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose?**

   Please provide reasons to support your view.

   We agree that these are representative of the types of steps that would be taken to determine if an appropriate level of management has committed to a plan to sell the asset or use the asset for an alternative purpose. As highlighted above, the decision to change the use of an asset in the public sector can be a protracted process and we consider that the steps above will be useful in informing an entity's decision as to whether potential alternative uses should be considered in determining the valuation methodology.

7. **Do you agree with the proposal in paragraph F12 that an entity is only required to assess whether a use of the asset is physically possible, legally permissible and financially feasible in accordance with paragraph 28 when (per paragraph F9) the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted? Please provide reasons to support your view.**

   We agree with the proposal set out in paragraph F12 that only where it is determined that the current use may not be the highest and best use should it be considered whether alternative uses are physically, legally and financially feasible. This is primarily because in most instances any alternative use would not be legally permissible because of, for example, zoning requirements on the use of land. As an example, more often than not, the highest and best use of a school site is not going to be the provision of public education, but for a car park, or a shopping centre. However, these alternatives are not possible because of the zoning restrictions on the land. Therefore, it does not appear appropriate to consider alternative uses unless the appropriate level of management has committed to a plan to sell the asset or to use the asset for an alternative purpose.

8. **Do you agree with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use' concept described in AASB 13 paragraph 28(c), namely that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, a use is financially feasible if market participants (including NFP public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services? Please provide reasons to support your view.**

We agree with the proposal as set out in paragraph F13. We note that the assessment is only relevant where the commitment has been made by an appropriate level of management to change the use of the asset. Where that commitment is made and an alternative highest and best use identified, then willingness to invest in the service capacity of that asset is an appropriate consideration to determine if that alternative highest and best use is financially feasible.

Application of the cost approach

9. **Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location? Please provide reasons to support your view.**

   We agree with the proposal set out in paragraph F14(a) that an entity should assume the asset would be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location. The time and effort that would be required to identify and factor in the cost differential for relocating the asset would not result in more useful financial reporting. Accordingly, we consider it appropriate that an entity assumes that the current location is where the replacement asset would be constructed.

10. **Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? Please provide reasons to support your view.**

    We agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement presently does not exist. In applying such a premise, the method of identifying the replacement cost will closely replicate the costs incurred in constructing the asset. We have observed instances where there is an immediate adjustment to a newly constructed asset because of differences in how the cost of the asset is initially measured applying the principles of AASB 116 *Property, Plant and Equipment* and the determination of the replacement cost under AASB 13. As an example, we have seen instances where costs such as site preparation works and project management fees have been appropriately incorporated in the initial measurement of an item of property, plant and equipment, but were subsequently not considered an appropriate input to the determination of fair value, resulting in practically immediate write downs. Therefore, the clarification that the replacement cost is to be considered the replacement of an asset that doesn't presently exist should help to eliminate some of these counterintuitive fair value adjustments.

11. **Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (ie a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Please provide reasons to support your view.**

    We agree in principle with the proposal regarding the use of a reference asset to estimate the replacement cost of the subject asset. We have observed that this is commonly applied in practice, however, there are instances where reference to a modern equivalent can create confusion in the accounting for an asset. As an example, in determining the fair value of a road, the construction techniques and safety standards of how a road will be constructed will have changed. This however, does not ultimately change the service capacity of a road, in that the same number of cars can still drive on the road at any given time. The impact of this is that the replacement cost of the replica asset is higher, but in bringing it back to its depreciated replacement cost it can give the impression that the road is in fact impaired because it is not of the same specifications or standard of the modern replacement asset. We have historically observed some confusion in practice and clarification of the appropriate treatment where a modern replacement asset would have different attributes to the existing asset is valuable.

12. Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.

We agree in principle with this proposal. Similar to our response in question 10, we believe that this represents what it would cost to acquire the asset. As described in the example, it is suggested that the replacement cost should reflect how an entity would acquire an asset as if they were starting the acquisition process from scratch. Accordingly, this would include once-only costs.

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

(a) unavoidable costs of removal and disposal of unwanted existing structures on land; and
(b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs?

Please provide reasons to support your view.

We agree in principle with this proposal. We do see divergence in practice as to how these issues are addressed in practice. Typically the reference asset is determined and replacement rates are identified and applied to the asset that the entity is operating. We note that in our experience it is uncommon for entities to consider these unavoidable costs (such as site preparation) in determining replacement costs. Therefore, although we agree with the proposals, we do highlight that this may lead to some initial change in practice and may require some entities to develop relevant assumptions for the first time which will naturally require time and resources. For the avoidance of doubt, we agree with the proposal and note that this potential change in practice supports the relatively long time between issuing a final standard and the effective date, as is proposed by ED 320.

With regard to disruption costs, we do agree that if we are trying to represent what it would cost to replace the asset, disruption costs should be considered in representing the fair value of the replacement of that asset, because those costs form part of the basis of the fair value assumptions – that is one of the factors a market participant would consider is that by purchasing the asset rather than building a new one, they would avoid any costs of disruption, and therefore be willing to factor those avoided costs into their purchase price.

14. Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity? Please provide reasons to support your view.

Please note that Illustrative Examples 1 and 2 illustrate the application of paragraphs F14 and F15.

We agree with the proposal in paragraph F15(c) and note that the illustrative examples are easy to follow in how you would apply these paragraphs. In practice, advice would be sought from quantity surveyors and valuation professionals working with the professionals that manage and work with the assets to determine the approach to valuing the asset. We do observe that the proposals are reflective of our experience as to what is currently happening in practice to determine the replacement cost of assets.

Economic obsolescence

15. **Do you agree with the proposal in paragraph F16 that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity? Please provide reasons to support your view.**

    No, we do not agree with the proposal in paragraph F16. In our view, identifying economic obsolescence should be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity. As we have previously noted, decision making in the public sector can be a protracted process, and often options explored for reducing physical capacity are not executed for a range of policy reasons. Our view is that it is more appropriate that the asset's physical capacity be derecognised only at the point that a decision has been made to discontinue that capacity, rather than endeavouring to factor this into fair value measurement prior to a decision being made.

    In the example given in paragraph F18 regarding the demographic changes and impact on student enrolments, we believe such a change does not necessarily indicate that the asset's value is overstated, but is rather an indicator the asset may not be used to its full capacity at that point in time. It is also not necessarily true that the value of the asset is reduced in these circumstances, as many of the facilities of a school (for example) are necessary to operate at any capacity. As noted in the paragraph above, in the circumstances described in proposed paragraph F18, we consider it would be more appropriate to base the assessment of obsolescence on the formal decisions of the public sector entity's governing body, noting a change in demographics would likely be a catalyst for the public sector entity to assess (and decide) whether part of the asset's physical capacity should indeed be reduced.

    Paragraph BC136 discusses the alternate views that obsolescence should not be considered until a formal decision has been made, given that it's highly unlikely to be clear whether and to what extent economic obsolescence exists. We acknowledge the AASB's view that the primary consideration in assessing when to identify economic obsolescence is to consider if a market participant would deduct an amount of obsolescence from the asset's replacement cost. However, this does appear to contradict the proposed guidance in paragraph F5(b) which notes that in the absence of relevant information about market participant assumptions, the entity should use its own assumptions as a starting point and adjust where relevant. We agree with the view that until a decision is made regarding excess capacity, it is unclear to what extent economic obsolescence exists.

16. **Do you agree with the proposal in paragraph F17 and the example in paragraph F18 that economic obsolescence should not be identified for any 'surplus capacity' of an asset that is necessary for stand-by or safety purposes (eg to deal with contingencies), even if it seldom or never is actively utilised? Please provide reasons to support your view.**

    Yes. We agree with this proposal. This type of 'surplus capacity' is common in the public sector. To be adjusting for this type of surplus capacity would create additional burden on reporting entities as well as the cost of managing these valuations. Our support for this proposal aligns with our reasoning as to why service capacity shouldn't be factored into the replacement cost of a specialised public sector asset.

    We also recommend the AASB consider expanding the circumstances in which this guidance would apply beyond only stand-by or safety purposes. Surplus capacity can also exist in the absence of economic obsolescence where, for example, an asset is underutilised, but still necessary to meet the objectives of the entity in question. As an example, a Technical and Further Education (TAFE) building may include a commercial kitchen that is necessary to be able to train students, but may only be used twice per week. Although the commercial kitchen is not utilised to its full capacity in this example, it is still necessary for the TAFE to have (and would be necessary to replace) to fulfil its objectives.

This would also be consistent with our views expressed in the question above that there may be various reasons why an asset may surplus capacity without necessarily suffering from obsolescence.

Application of the proposed implementation guidance

17. **Do you agree with the proposal in paragraph AusC6.1 that the proposed authoritative implementation guidance set out in Appendix F should be applied prospectively? Please provide reasons to support your view.**

    We agree that the proposed authoritative implementation guidance should be applied prospectively. The guidance is to be issued to support the application of AASB 13. The guidance in many instances is confirmation of how entities have been applying AASB 13 and in that case a prospective application is appropriate as it codifies practice as opposed to changing practice.

18. **If you agree with prospective application in Question 17, do you consider that it would be appropriate for the AASB to provide an option for an NFP public sector entity to elect to restate comparative information as if the authoritative implementation guidance in Appendix F had been applied from a preceding period? Please provide reasons to support your view.**

    We are of the view that it would not be appropriate to allow entities the option to re-state comparative information. Prior to any authoritative guidance, not-for-profit public sector entities have been applying AASB 13 and have been working with valuation professionals to determine the fair value of their assets. Re-statements of these balances would create confusion around what fair value means and would also result in unnecessary adjustments to the reporting of Whole of Government financial statements as the impact of depreciation flows through to the comprehensive result.

19. **If you consider it appropriate for the AASB to provide an option for an NFP public sector entity to restate comparative information (see Question 18), do you consider it appropriate that, if an entity elects to restate comparative information, it should be required to disclose the amount of the adjustment for each financial statement line item affected, as if the implementation guidance had:**

    (a) always been applied (ie full retrospective application in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors); or
    (b) been applied from a specific preceding period, for example, the beginning of the immediately preceding period presented in the financial statements (ie modified retrospective application)? If so, please specify which preceding period you think would be appropriate. Please provide reasons to support your view.

    Consistent with our view expressed in response to question 18, we note that consideration of either transitional option above would result in significant cost in the determination of opening balances, and we do not believe that allowing this option would serve a useful purpose in improving the relevance and reliability of public sector financial reporting.

20. **Further to Question 19, do you consider it would be appropriate for such optional restatements, if elected, to be required for all affected assets, except to the extent it is impracticable for the entity to determine either the period-specific effects of the implementation guidance or the cumulative effect of the change? Please provide reasons to support your view.**

    We believe that in principle, if such an accounting policy choice were elected on transition, it would be appropriate for the election to be made in respect of each class of assets, as this is consistent with how accounting policy choices related to property, plant and equipment are able to be made in accordance with AASB 116 more generally.

21. **Do you agree that the proposed authoritative implementation guidance set out in Appendix F should be applied for annual periods beginning on or after 1 January 2024, with earlier application permitted? Please provide reasons to support your view.**

    We agree with the proposed timeline. This will allow entities to work with their valuation teams to ensure that any amendments to the current approach can be identified and changes can be planned in time to be applied for valuation cycles.

General matters for comment

22. **Whether the AASB Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?**

    Based on our observations we believe the AASB Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft.

23. **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?**

    We are not aware of any regulatory issues that may impact the implementation of the proposals. We do note however that in applying AASB 13 financial reporting professionals are reliant on valuation professionals, and their application of relevant professional standards.

24. **Whether, overall, the proposals would result in financial statements that would be useful to users?**

    We believe that this would result in financial statements that are more comparable across jurisdictions. There is divergence across the various jurisdictions within Australia in the application of fair value. For the guidance to result in financial statements that are useful to users it will be essential that financial reporting professionals are working closely with valuation professionals to implement the guidance.

25. **Whether the proposals are in the best interests of the Australian economy?**

    We have no comments regarding the proposals and their impact on the Australian economy.

Comments on ED320

This is a great initiative, with respect to providing guidance to NFP organisations on how to measure the Fair Value of non-financial assets to ensure compliance with AASB13.

Given that the period has lapsed in providing feedback (I only recently came across this Exposure Draft), my comments relate directly to the Application of the Cost Approach, as this is the area that in my opinion requires most guidance.

Without authoritative implementation guidance and/or examples, many NFP entities, valuers and auditors are often left to their own interpretation of the standards when undertaking revaluations. As a result, the financials reported in each NFP entities General Purpose Financial Statements may not be comparable due to the varied assumptions and inputs.

Thank you for the opportunity to provide feedback into this very important initiative and update to the accounting standard AASB13.

Regards

Tony Blefari

MEM, MIEAust

Comments on ED320 – Application of the cost approach – Questions 9-14

Q9. Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location? Please provide reasons to support your view

Agree with the intent. The Fair Value measurement is a snapshot in time of the asset. The current state of Asset Management Plans in the industry are based on the assets providing services into perpetuity. Hence assets should be valued in accordance with their current service provided, in order to provide a true representation of the assets cost and subsequent Fair Value.

Q10. Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? Please provide reasons to support your view.

Agree with the intent, however, in my opinion, this clause should be reviewed. Using infrastructure non-current assets as an example, the clause could again be open to interpretation with regards to the assumptions/inputs as to the site details in terms of where assets are constructed and/or some costs can often be attributed to more than one asset due to construction practices.

Also bringing all costs to account in some cases may require relocating many other assets or services - in very unique cases like relocating an entire town to build a dam or a freeway through a township or rationalising a number of facilities into precinct hubs.

A suggestion to improve this clause is:

The entity must include all necessary costs that would be required to currently replace the existing "service capacity" of an asset, when there are no market participants. Careful consideration of costs are required to ensure that costs are not duplicated between assets.

For example, when considering the cost to replace an existing pipe asset within a roadway, whilst in reality an organisation would excavate and be required to reinstate the road pavement and surface and/or may have to move services controlled by other authorities, these costs must be excluded as they are accounted for either within the road asset and/or by other authorities.

Q11. Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (i.e. a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Please provide reasons to support your view.

Agree with the intent.

Could the definition clarify that the modern equivalent asset intention is applicable in cases where an existing asset cannot be sourced or replaced with current existing design standards, materials, practices and/or technology? Some suggested text to clarify as follows:

- All existing assets will be renewed in accordance with current industry design standards and replaced like for like, where possible; or
- In cases where assets are not able to be renewed like for like (due to changed design standards, materials, practices and/or technology), the gross replacement cost of the asset will be assessed based on replacement with a new asset having similar service potential (modern engineering equivalent).

Some examples:

- For example, a 5kw pump by company AB cannot be applied a replacement cost equivalent to a 10kw pump by company AB, however, can be applied a replacement cost equivalent to a 5kw pump by company XY (modern engineering equivalent), if company AB no longer manufacture 5kw pumps.
- A 200mm diameter asbestos cement pipe can be applied a replacement cost equivalent to that of a 200mm diameter reinforced concrete pipe (depending on an organisations adopted engineering standards), as asbestos cement pipes are no longer manufactured. This is considered a modern engineering equivalent.

Q12. Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.

Agree with the intent.

Would suggest that where this is the case, that such costs are assigned to a separate component and depreciated separately, to ensure that the annual depreciation is not misstated.

Q13. Do you agree with the proposal in paragraph F15(b) that, when estimating the current replacement cost of the subject asset, an entity should determine, based on the circumstances of the subject asset, whether the following costs would (among other costs) need to be incurred upon the hypothetical acquisition or construction of that asset at the measurement date:

(a) unavoidable costs of removal and disposal of unwanted existing structures on land; and
(b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs?

Please provide reasons to support your view.

Agree with the intent. As it reflects the assets true fair value.

Q14. Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity? Please provide reasons to support your view. Please note that Illustrative Examples 1 and 2 illustrate the application of paragraphs F14 and F15.

Agree with the intent, however, believe there is an opportunity to provide much clearer definitions in this clause in terms of what costs should be considered by an entity when determining the replacement cost. Maybe providing a list of acceptable inputs when developing unit rates as per the following would be beneficial in an appendix:

- Strategic planning reports
- Project scoping and investigation and planning approvals
- Demolition
- Disposal
- Traffic management
- Survey and design
- Professional fees
- Site preparation and establishment
- Construction
- Contract payments
- Construction direct costs such as wages, salary, plant & equipment, materials and on-costs
- Overheads
- Supervision
- Transport, installation, assembly and testing
- Project management

The current contentious issue currently when determining an assets Fair Value, is the acceptance by some NFP entities and auditors (depending on the State) of acceptable cost inputs pertaining to the demolition and disposal of the existing asset in order to replace it. Other costs such as designs, planning, professional fees etc are widely and typically accepted when determining an assets Fair Value.

The true current replacement cost of an asset should include all reasonable costs and these include the costs required to demolish and dispose of the existing asset, in its current location and environment.

Other issues include the sourcing and use of contractually cheapest costs which can be based on schedule of rates that may be flawed as the contracts may be biased on some parts versus others eg asphalt rates based on regional volumes or a larger construction contract with an efficient rate for footpath construction or a small rehabilitation project with low volume kerb has a very high unit rate.

Again, an opportunity here would be to reinforce the fact that asset current replacement costs, ensure that they exclude duplication of costs between assets where these are interrelated as a result of design i.e. roads, pipes, kerbs, service conduits and that appropriate rates sourced which reflect the quantum of work and availability of resources.