



<b>Project:</b>	<b>Fair Value Measurement for NFP Public Sector Entities</b>	<b>Meeting:</b>	AASB September 2022 (M190)
<b>Topic:</b>	<b>Consider stakeholder feedback on ED 320</b>	<b>Date of this paper:</b>	5 September 2022
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		<b>Project Priority:</b>	Medium
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Feedback on ED 320

## Objectives of this agenda item

- The objectives of this agenda item are for the Board to:
  - consider** comments received on ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*; and
  - confirm** whether to make modifications to AASB 13 *Fair Value Measurement*. If so:
    - confirm** the content of the Amending Standard; and
    - decide** the next steps and timeline for finalising the Standard.

## Reasons for bringing this agenda item to the Board<sup>1</sup>

- The Board issued ED 320 in March 2022 to propose adding authoritative implementation guidance (IG) to AASB 13 specific to fair value measurements of non-financial assets of not-for-profit (NFP) public sector entities not held primarily for their ability to generate net cash inflows. **For ease of reference, unless otherwise stated, each ‘asset’ referred to in this agenda item relates to this type of assets.**
- ED 320 was issued with a 90-day comment period ending on 30 June 2022. The Board received sixteen comment letters from public sector financial statements preparers and auditors, valuers and professional services firm. [Appendix A](#) to this Cover Memo provides details of the ED respondents.
- Staff held three virtual roundtable discussions and a meeting with the Fair Value Project Advisory Panel during the comment period to obtain stakeholders’ views on ED 320. A summary of the result of the polling questions asked during each of the roundtables is included in Agenda Paper 8.8 in the supplementary folder for the Board’s information.
- The agenda papers for this meeting refer specifically to matters raised in the sixteen comment letters – the views expressed in the stakeholder discussions were generally consistent with those in the comment letters.

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1 The project summary for this project is available [here](#).

6. At this meeting, staff are asking the Board to consider stakeholder feedback on ED 320, related staff analysis and recommendations, and confirm whether to modify AASB 13; and if so, confirm the content of the Amending Standard.

### Overview of ED responses

7. Throughout the project, the fair value measurement of land subject to public-sector-specific legal restrictions<sup>2</sup> has generated a lot of debate amongst public sector financial statements preparers, auditors and valuers. After considering stakeholder feedback, when issuing ED 320 the Board decided that it should not mandate the measurement technique to apply for measuring the fair value of specific assets, including restricted land. This is because determining the appropriate technique to apply is best regarded as relating to detailed valuation assessments (ED 320 paragraphs BC164–BC170). For ease of reference, fair value measurement of restricted land is referred to as Topic 1 in this Cover Memo.
8. Topic 1 has continued to generate debate among ED respondents, specifically:
  - (a) all ACAG jurisdictions but one consider that restricted land should be measured using the market approach with an adjustment to reflect public-sector-specific restrictions; while
  - (b) one ACAG jurisdiction and four other respondents consider that the value of land held primarily to provide public services should not be affected by any public-sector-specific restrictions that would not be transferred to other market participants [S2–APV, S4–EY, S5–Blacktown City Council, S11– LG Government Professionals NSW].
9. ED 320 proposed IG on the following topics:
  - Topic 2: Rebuttable presumption that the asset’s current use is its highest and best use (HBU)
  - Topic 3: The ‘financially feasible use’ aspect of HBU
  - Topic 4: Market participant assumptions to use in fair value measurements
  - Topic 5: The application of the cost approach, which included:
    - Topic 5A: Assumed location of an asset measured under the cost approach;
    - Topic 5B: Nature of component costs to include in an asset’s current replacement cost (CRC)
    - Topic 5C: Economic obsolescence under the cost approach
10. Based on the feedback received, staff observed that:
  - (a) 15 of the 16 ED respondents (except S14–Liquid Pacific) appear to welcome modifying AASB 13 (to varying degrees) to assist NFP public sector entities in applying that Standard; but
  - (b) significant refinements would be needed in the drafting of the proposed modifications to address potential application issues raised by respondents on Topics 2, 4 and 5B.
11. [Appendix B](#) to this Cover Memo provides a colour-coded pictorial overview of respondents’ feedback on the ED 320 proposals related to Topics 1–5.

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2 For ease of reference, land subject to public-sector-specific legal restrictions is referred to in this paper as ‘restricted land’. For the purpose of this project, public-sector-specific legal restrictions are restrictions that would restrict the use of an NFP public sector entity asset, or restrict the prices that an NFP public sector entity may charge for using an asset, and that would not be transferred to private sector entities in a hypothetical sale of the asset.

## Papers for this agenda item and summary of staff recommendations

12. There are seven other papers for this agenda item; of which Agenda Papers 8.2–8.6 request the Board’s consideration and decisions, and Agenda Papers 8.7 and 8.8 are included in the supplementary folder for the Board’s information.

13. The following table summarises the staff recommendations in Agenda Papers 8.2–8.6.

Agenda Paper	Summary of staff recommendations
<p>Agenda Paper 8.2: Scope of the project [Relates to Topic 1 and the General Matters for Comment in ED 320]</p>	<p>In respect of the scope of the Amending Standard, proceed with the Board’s proposals:</p> <ul style="list-style-type: none"> <li>(a) to retain fair value as the sole current value measurement basis for measuring non-financial assets;</li> <li>(b) to modify AASB 13 for NFP public sector entities;</li> <li>(c) not to mandate the measurement technique to apply for measuring the fair value of specific assets, including restricted land; and</li> <li>(d) not to undertake standard-setting action regarding the other issues raised by individual stakeholders.</li> </ul>
<p>Agenda Paper 8.3: Highest and best use [Relates to Topics 2 and 3]</p>	<p>In respect of applying the highest and best use concept, proceed with the Board’s proposals:</p> <ul style="list-style-type: none"> <li>(a) to modify AASB 13 to limit the circumstances in which the presumption in AASB 13 paragraph 29 that an asset’s current use is its HBU is rebutted; but</li> <li>(b) amend the rebuttal point so that the presumption that the asset’s current use is its HBU can be rebutted only when it is highly probable that the asset will be sold, distributed or used for an alternative purpose to its current use; and</li> <li>(c) modify AASB 13 to clarify the application of ‘financially feasible use’ aspect of HBU, using wording virtually unchanged from that in ED 320.</li> </ul> <p>Staff also recommend that the modifications are made to the body of AASB 13 rather than within implementation guidance.</p>
<p>Agenda Paper 8.4: Market participant assumptions [Relates to Topic 4]</p>	<p>Proceed with the Board’s proposal to add IG in AASB 13 to assist NFP public sector entities to apply the market participant assumptions principle, but simplify and clarify the wording of the IG.</p> <p>Clarify the wording of the IG to state that when measuring the fair value of an NFP public sector asset, if:</p> <ul style="list-style-type: none"> <li>(a) the market selling price of a comparable asset is not observable; or</li> <li>(b) not all other market participant data required to measure the fair value of the asset is observable,</li> </ul> <p>the entity shall 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.</p>

Agenda Paper	Summary of staff recommendations
<p>Agenda Paper 8.5: Application of the cost approach [Relates to Topic 5]</p>	<p>Amend the drafting of the IG regarding the application of the cost approach to address practical concerns with identifying the costs to include in an asset’s current replacement cost, by:</p> <ul style="list-style-type: none"> <li>(a) omitting ED 320’s phrase “assume the subject asset presently does not exist” and the term “once-only costs”;</li> <li>(b) adding a paragraph in the IG that, when developing unobservable inputs, an entity uses its own assumptions as a starting point and adjusts those assumptions if reasonably available information indicates that other market participants would use different data;</li> <li>(c) providing a practical expedient that an entity need not undertake exhaustive efforts to obtain information about the costs a market participant is expected to require to incur in hypothetically constructing a reference asset, but shall include those costs if data about them are reasonably available; and</li> <li>(d) adding illustrative examples to illustrate those concepts.</li> </ul>
<p>Agenda Paper 8.6: Application and due process</p>	<p>Proceed with the Board’s proposal to:</p> <ul style="list-style-type: none"> <li>(a) require the Amending Standard to be applied prospectively with early adoption permitted (but no option for entities to voluntarily apply retrospectively); and</li> <li>(b) limit the scope of the Amending Standard to NFP public sector entities only.</li> </ul> <p>Staff also recommend issuing a Fatal-Flaw Review Draft of the Amending Standard for consultation prior to finalisation.</p>

14. The following papers are included in the supplementary folder of the Board’s information:

- Agenda Paper 8.7: Comment letters received on ED 320; and
- Agenda Paper 8.8: Roundtable polling results.

## Appendix A: List of respondents

The Board received 16 written submissions on ED 320. The table below provides a high-level description of each respondent.

Submission no.	Respondent	Type of organisation
S1 – Cessnock City Council	Cessnock City Council	Local government preparer
S2 – APV	APV Valuers and Asset Management	Valuers
S3 – HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee	Commonwealth and State government preparers
S4 – EY	Ernst & Young	Professional services firm
S5 – Blacktown City Council	Blacktown City Council	Local government preparer
S6 – PwC	PwC	Professional services firm
S7 – KPMG	KPMG	Professional services firm
S8 – IPA	Institute of Public Accountants	Professional accounting body
S9 – CA & CPA	Chartered Accountants Australia and New Zealand and CPA Australia	Professional accounting body
S10 – API	Australian Property Institute	Professional valuation body
S11 – LG Professionals NSW	Local Government Professionals NSW	Local government preparers
S12 – ACAG	Australasian Council of Auditors-General	Public sector auditors
S13 – ABS	Australian Bureau of Statistics	Statistical body
S14 – Liquid Pacific	Liquid Pacific	Valuers
S15 – Deloitte	Deloitte	Professional services firm
S16 – Tony Blefari	Tony Blefari	Valuer

## Appendix B: Overview of written responses

This Appendix provides a pictorial overview of respondents' feedback on the ED 320 proposals.

Legend (shading)	
<b>Green</b> = Respondent agrees with proposal (some with modest caveats)	<b>Amber</b> = No clear overall view in comment(s) or not completely agree/disagree with the proposal
<b>Red</b> = Respondent disagrees with proposal	<b>Grey</b> = Respondent did not provide comment

ED respondent	Topic 1: AASB should not mandate which FVM technique to use [SMC 2]	Topic 2: The presumption that the asset's current use is its HBU [SMC 5–7]	Topic 3: The 'financially feasible use' aspect of HBU [SMC 8]	Topic 4: Market participant assumptions [SMC 3–4]	Topic 5A: Location of land (cost approach) [SMC 9]	Topic 5B: Nature of component costs (cost approach) [SMC 10–14] <sup>7</sup>	Topic 5C: Economic obsolescence (cost approach) [SMC 15 –16]
S1–Cessnock City Council	No comment	No comment	No comment	No comment	No comment	Disagree <sup>5</sup>	No comment
S2–APV	Agree, but want guidance on restrictions <sup>1</sup>	Agree	Agree	Agree	Agree	Agree	Agree
S3–HoTARAC	Agree	Disagree <sup>3</sup>	Agree	Agree	Agree	Agree in principle <sup>6</sup>	Agree
S4–EY	Disagree – Should mandate the use of the cost approach for certain assets <sup>2</sup>	A commitment to sell may be too early to rebut the presumption <sup>4</sup>	Agree	Neither agree nor disagree – the IG does not add to existing principles in AASB 13	Agree	Agree, and costs estimate should also be based on the entity's expected procurement method	Agree
S5–Blacktown City Council	Agree, but want guidance on restrictions <sup>1, 2</sup>	No comment	No comment	No comment	No comment	No comment	No comment
S6–PwC	No comment	Disagree <sup>3</sup>	No comment	Agree	No comment	Agree in principle <sup>5, 6</sup>	Agree

ED respondent	Topic 1: AASB should not mandate which FVM technique to use [SMC 2]	Topic 2: The presumption that the asset's current use is its HBU [SMC 5–7]	Topic 3: The 'financially feasible use' aspect of HBU [SMC 8]	Topic 4: Market participant assumptions [SMC 3–4]	Topic 5A: Location of land (cost approach) [SMC 9]	Topic 5B: Nature of component costs (cost approach) [SMC 10–14] <sup>7</sup>	Topic 5C: Economic obsolescence (cost approach) [SMC 15 –16]
S7–KPMG	No comment	Agree in principle, but the drafting of the IG needs to be tightened/clearer	No comment	No comment	Agree	Agree, suggest clarifying paragraph F15(c)	No comment
S8–IPA	No comment	Disagree <sup>3</sup>	No comment	Agree, but the drafting of the IG needs to be tightened	No comment	Disagree, the IG is too rule-based	No comment
S9–CA & CPA	Agree	Disagree <sup>3</sup>	Agree	Agree	Agree	Agree in principle <sup>5</sup>	Agree
S10–API	Agree	Disagree <sup>4</sup>	Agree	Agree, but the drafting of the IG needs to be tightened	Agree	Agree, but the guidance should aim to estimate an exit price assessment <sup>6</sup>	Agree
S11–Local Government Professionals NSW	Agree, but want guidance on restrictions <sup>1, 2</sup>	No comment	No comment	No comment	No comment	No comment	No comment
S12–ACAG	Agree	Agree, but with some important caveats <sup>4</sup>	Agree	Agree, but two jurisdictions suggest the Board explore the notion of entry price further	Agree	Agree in principle <sup>5</sup> – Difficult to apply when a part, rather than whole asset, is replaced; IG contains potential inconsistencies	Agree
S13–ABS	No comment	Disagree <sup>4</sup>	No comment	Agree	Agree	Agree	Agree

ED respondent	Topic 1: AASB should not mandate which FVM technique to use [SMC 2]	Topic 2: The presumption that the asset's current use is its HBU [SMC 5–7]	Topic 3: The 'financially feasible use' aspect of HBU [SMC 8]	Topic 4: Market participant assumptions [SMC 3–4]	Topic 5A: Location of land (cost approach) [SMC 9]	Topic 5B: Nature of component costs (cost approach) [SMC 10–14] <sup>7</sup>	Topic 5C: Economic obsolescence (cost approach) [SMC 15 –16]
S14–Liquid Pacific	Agree	Disagree with any constraints on identifying a higher and better alternative use	Disagree	Disagree that an entity would not find any relevant information to base their assumptions	Agree	Agree in principle, but with some important caveats	Agree, but with some important caveats
S15–Deloitte	Agree	Agree	Agree	Agree	Agree	Agree in principle <sup>5</sup>	Disagree
S16–Tony Blefari	No comment	No comment	No comment	No comment	Agree	Agree in principle <sup>6</sup>	No comment

**Notes:**

- 1 The respondent considers that the body of the IG should include the explanation about restrictions noted in the Basis for Conclusions in ED 320 (such as paragraphs BC61, BC62, BC69, BC70).
- 2 The respondent was concerned that without any modifications to AASB 13 restricted land would inappropriately be measured at a value lower than the market selling price of a comparable unrestricted parcel of land.
- 3 The respondent considers that the presumption that the asset's current use is its HBU should only be rebutted when conditions in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are met.
- 4 The respondent considers that the presumption that the asset's current use is its HBU should only be rebutted when the asset is ready for sale, or when the same has been formally approved.
- 5 The respondent's reason for disagreeing or only agreeing in principle with the proposal – that in applying the cost approach, the entity should assume that the subject asset presently does not exist and therefore its CRC should include all necessary costs intrinsically linked to acquiring or constructing the subject asset – is that some costs might be infeasible to determine and/or the costs of determining them might exceed the related benefits.
- 6 The respondent considers that all components of cost initially capitalised under AASB 116 *Property, Plant and Equipment* should be included in the subsequent measurement of the asset's CRC.
- 7 Because there were five related SMCs on Topic 5B, staff applied judgement in categorising the overall comments expressed in those five SMCs.