



Project:	Fair Value Measurement for Public Sector Entities	Meeting:	AASB November 2019 (M173)
Topic:	Draft ED	Date of this Cover Memo:	6 November 2019
Contact(s):	Patricia Au pau@asb.gov.au (03) 9617 7621 Jim Paul jimpaul87@hotmail.com Kala Kandiah kkandiah@asb.gov.au (03) 9617 7626	Agenda Item:	6.1
		Project Priority:	Medium
		Decision-Making:	Medium
		Project Status:	Form tentative views on issues discussed

Objective of this agenda item

1. The objective of this agenda item is for the Board to consider a revised working draft of an Exposure Draft (draft ED) proposing guidance accompanying AASB 13 *Fair Value Measurement* for application by not-for-profit entities (Agenda Paper 6.2), and to **decide** whether:
 - the draft amendments in the ED and the accompanying draft illustrative examples reflect the decisions made by the Board in the April 2019 and June 2019 meetings; and
 - guidance on the fair value measurement of right-of-use (ROU) assets arising under concessionary leases should be added to the draft ED; and, if so, the principles to be set out in that guidance.

Reasons for bringing the revised draft ED to the Board at this meeting

2. At its April 2019 meeting, the Board instructed staff to commence work on drafting the ED for the issues decided by the Board, and include, in the draft ED, staff's recommended guidance to address additional practical issues to be considered by the Board at the June 2019 meeting.
3. Accordingly, staff presented the first version of the working draft ED to the Board at the June 2019 meeting. In this meeting, staff ask the Board to consider a revised version of the draft ED (marked up for changes since the June 2019 meeting draft) and make decisions on the drafting of the proposed amendments and illustrative examples to be set out in the ED, including the guidance on fair value measurement of ROU assets arising under concessionary leases.

4. Staff also request Board members to consider the proposed project timeline outlined in paragraph 10 below.

Attachments

- Agenda Paper 6.2 Working draft of Exposure Draft *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Entities Held for their Service Capacity* (marked up for changes since the June 2019 meeting draft)
- Agenda Paper 6.3 A clean version of Agenda Paper 6.2 (without mark ups, for reference only)
- Agenda Paper 6.4 Letter from Mr John Harvey dated 6 June 2019 (for noting)
- Agenda Paper 6.5 Submission from Australis Asset Advisory Group received on 16 September 2019 (for noting)
- Agenda Paper 6.6 Letter from the Australasian Council of Auditors General (ACAG) dated 23 September 2019 (for noting)

Main changes made to the draft ED

5. Main changes made to the draft ED since the first version considered by the Board in June meeting are listed in paragraphs 6–8 below.
6. Amended the scope of the draft ED so that it would be applicable to all NFP entities, and not only to public sector NFP entities. Staff are of the view that the fair value measurement guidance should be applicable to all NFP entities.
7. Amended the draft ED to more clearly specify that, in respect of a non-financial asset of a NFP entity that is held for its service capacity (i.e. not held primarily for its ability to generate net cash inflows), if the asset has a legally restricted use or is subject to a legal restriction on the prices that may be charged for using it:
 - (a) if an equivalent restricted asset is obtainable in the marketplace at the measurement date for a price supported by observable market evidence, the asset is measured at fair value based on the available market evidence for the equivalent restricted asset; and
 - (b) if an equivalent restricted asset is not obtainable in the marketplace at the measurement date for a price supported by observable market evidence, the asset is measured at its current replacement cost. The asset's current replacement cost is determined consistently with paragraphs B8 – B9, without a discount to the current market buying price of an equivalent but unrestricted asset.

Staff recommend the updated drafting in the ED more clearly specifies that measuring the abovementioned assets at current replacement cost under (b) above, is a modification of AASB 13 and that the resulting measurement might not necessarily conform to the requirements of AASB 13.

8. Included in the draft ED is draft guidance on the fair value measurement of ROU assets arising for NFP entity lessees under concessionary leases. Concessionary leases in this context are leases that have ‘significantly below-market terms and conditions principally to enable the entity to further its objectives’ referred to in AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases*.

Questions to the Board

9. Staff have included a number of specific questions for the Board as comment boxes in the working draft ED (Agenda Paper 6.2). The questions to the Board in this cover memo are related to the conceptual understanding of the draft ED as outlined in paragraphs 6–8 and to the proposed timeline in paragraph 10 below.

Questions for Board members

Q1: Do Board members agree with staff recommendation in paragraph 6, that the proposals in the ED should be applied by all NFP entities, and not only by public sector NFP entities?

Q2: Do Board members agree with staff recommendation that the proposed modification to AASB 13 explained in paragraph 7 and more clearly specifying in the ED that measuring the abovementioned assets at current replacement cost might not necessarily conform to the requirements of AASB 13?

Q3: Do Board members agree with the draft guidance on the fair value measurement of ROU assets arising for NFP entity lessees under concessionary leases?

Q4: Do Board members agree with the proposed project milestones and timeline in paragraph 10?

Proposed project timeline

10. The following table contains a proposed project timeline for the Board’s consideration and comment. The milestones and timeline will periodically be reviewed and updated to ensure the project path remains appropriate and the project can be adequately resourced.

Meeting / Deliverable	Project Milestones
21 November 2019: Board meeting	Present analysis of fair value measurement issue regarding ROU assets in the form of illustrative examples in the draft ED. Board to consider revised draft ED and decide on the guidance to be set out in the ED.
22 November – 4 December 2019	Staff to update draft ED based on decisions made in the November Board meeting.

Meeting / Deliverable	Project Milestones
4 – 16 December 2019	Circulate ballot draft of ED for Board (or sub-committee of Board) to vote out of session on 4 December 2019. Propose about 2 weeks to vote until 16 December 2019.
19 December 2019 – 20 March 2020	Issue ED on 19 December 2019 for public comment for a period of 90 days. Comment period ends 20 March 2020.
January – March 2020	Staff to undertake the following tasks: <ul style="list-style-type: none"> • conduct outreach to stakeholders regarding the ED; and • Panel meeting – present the ED to the Panel for feedback.
23 March – 13 April 2020	Staff to collate and analyse comments from submissions on ED. Staff to draft Board papers and draft Amending Standard reflecting Staff recommendations on how to address constituent comments, which could include changes to examples/guidance in ED and/or drafting more examples/guidance supporting AASB 13.
29-30 April 2020: Board meeting	Board to consider comments from submissions on ED and comments from Panel members and decide how to proceed including whether to proceed based on staff recommendations.
*4-26 May 2020	Staff to update draft Standard based on decisions made in April 2020 meeting if Board decides to proceed and issue a Standard—this will be drafted as a ballot-draft Fatal-Flaw draft Standard (if Board decides to issue a Fatal Flaw).
*11 June 2020: Board meeting	Board to vote on ballot-draft Fatal-Flaw draft Standard (if Board decides to issue a Fatal Flaw).
*June – 31 July 2020	Issue Fatal-Flaw draft Standard for public comment with a comment period of 30 days (if Board proceeds with this option) and circulate to Panel members for comment. Comment period ends 31 July 2020.
*1-30 August 2020	Collate comments on Fatal-Flaw draft Standard, prepare Staff paper, and update draft Standard with Staff recommendations on how to address constituent comments.
*16-17 September 2020: Board meeting	Board to consider Staff paper and comments on Fatal-Flaw draft Standard and decide on the amendments/guidance.

Meeting / Deliverable	Project Milestones
*October/November 2020	Issue final Standard

*Note: the timeline will change if the Board decides to make significant changes to the proposals in the ED as a result of feedback received and, as part of the due process, the Board needs to expose those revisions.