



<b>Project:</b>	<b>Fair Value Measurement for NFP Entities</b>	<b>Meeting:</b>	AASB September 2020 (M177)
<b>Topic:</b>	<b>Disclosures about deductions for public-sector-specific restrictions on land</b>	<b>Date of this paper:</b>	2 September 2020
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		<b>Project Priority:</b>	Medium
		<b>Decision-Making:</b>	Low
		<b>Project Status:</b>	Consider stakeholder feedback and some possible amendments to AASB 13 and AASB 116

## Objective of this agenda item

- The objectives of this agenda item are for the Board to:
  - consider** further feedback from stakeholder consultations about the usefulness of, and implementation issues arising from, tentatively proposed disclosures about amounts deducted for public-sector-specific restrictions on land (see [Section 1](#)); and, in light of that feedback,
  - consider** the content of any proposed disclosures about public-sector-specific restrictions on land and **provide feedback** to staff – while deferring decision on whether to propose requiring such disclosures (and, if so, whether any proposed new disclosure requirements would be temporary or permanent measures) until the Board considers a paper on strategy options for this project at its November 2020 Board meeting.

## Reasons for bringing this agenda item to the Board at this meeting

- At its April 2020 meeting, the Board noted that it would take considerable time to:
  - consult with users of public sector NFP entities' financial statements about their information needs regarding the current value of restricted non-financial assets held primarily for their service capacity; and then
  - complete its deliberations regarding the fair value measurement of restricted assets and right-of-use assets arising under concessionary leases.
- The Board tentatively decided, as an interim step while it continues its deliberations about these fair value measurement issues, to develop a limited-scope Exposure Draft for application

by public sector NFP entities. The central proposal<sup>1</sup> of the limited-scope Exposure Draft would be to add a requirement in AASB 13 *Fair Value Measurement*, in respect of land subject to a public-sector-specific restricted use, to disclose:

- (a) the total carrying amount of land that includes a material deducted adjustment to the current market buying price of equivalent unrestricted land because of restrictions that the land must be used for a public-sector-specific purpose;
  - (b) the total amount of the adjustment; and
  - (c) quantitative information about the significant unobservable inputs used in the fair value measurement and giving rise to the adjustment referred to in (b).
4. At its June 2020 meeting, the Board asked staff to obtain further<sup>2</sup> views from public sector stakeholders about these tentatively proposed disclosures; in particular, to obtain an understanding about the impact of those disclosures on current valuation practice (including cost and operationalisation considerations).
  5. The Board also asked staff to obtain views from public sector stakeholders about whether they would support limited removal of the not-for-profit entity exemption in paragraph Aus77.1 of AASB 116 *Property, Plant and Equipment* (ie the exemption from the requirement in paragraph 77(e) of AASB 116 to disclose, for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model). Requiring disclosure of the cost model-based measurement of revalued land restricted for a public-sector-specific purpose was identified as a potential initiative that can provide relevant information to users in its own right, and also as an alternative way to achieve the objective of the proposals if the costs of requiring the disclosures described in paragraph 3 were concluded to exceed the benefits.
  6. This consultation process was mostly undertaken after the Board's June 2020 meeting, at which the Board refined its tentatively proposed disclosure requirements on which to engage with stakeholders.
  7. The following outreach activities have been conducted in relation to these tentatively proposed disclosures:
    - (a) a meeting of the Project Advisory Panel ("the Panel") was held on 14 August 2020;
    - (b) informal feedback was elicited from the Financial Reporting and Accounting Committee (FRAC), a sub-group of the Australasian Council of Auditors General (ACAG); and

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<sup>1</sup> The Board also tentatively decided that the Exposure Draft would propose additional guidance in respect of issues previously discussed with the Panel regarding assets measured at current replacement cost, addressing:

- the nature of costs included in an asset's current replacement cost;
- the assumed location of land forming part of a facility; and
- identifying and measuring economic obsolescence.

<sup>2</sup> Staff conducted initial outreach activities on these nascent disclosure proposals prior to the Board's June 2020 meeting, at which the Board noted the staff's report on feedback from those preliminary discussions. Issues identified from that initial feedback have been incorporated in the summary of feedback in this paper and the Project Advisory Panel paper in Agenda Paper 7.2.

- (c) discussions with various users or their representatives, including data analysts, a credit ratings agency, staff members of taxpayers' representative bodies, and macroeconomic analysts (*still in progress at the time of this agenda paper*).
8. A copy of the staff paper for the Project Advisory Panel meeting (Panel paper) is provided as Agenda Paper 7.2 for the Board's information. Staff have consulted other stakeholders with a similar set of questions to those outlined in the Panel paper. To provide a holistic view of the feedback on the tentatively proposed disclosures, staff included annotation in the Panel paper to include a summary of feedback from the Panel as well as feedback from other stakeholders.
  9. The reasons for bringing this agenda item to this meeting are to:
    - (a) provide a summary of the feedback received on the tentatively proposed disclosures; and
    - (b) ask the Board for feedback on the content of any proposed disclosures about public-sector-specific restrictions on land – but deferring decision on whether to propose requiring such disclosures until the Board considers a paper on strategy options for this project at its November 2020 Board meeting.

### **Structure**

9. This paper is structured as follows:
  - (a) Section 1: Staff's analysis and recommendations regarding stakeholder feedback on tentatively proposed disclosures about restricted land (paragraphs 10–45); and
  - (b) Section 2: Proposed project milestones and timeline (paragraphs 46–49).

### **Attachments**

Agenda Paper 7.2      Staff paper for Project Advisory Panel meeting held on 14 August 2020, entitled *Proposed disclosures about restricted land*, annotated with summary of feedback from the Panel, FRAC of ACAG, a local government association and various users regarding the questions asked of Panel members

### **Section 1 – Staff's analysis of stakeholder feedback and recommendations about the content of disclosures regarding restricted land held primarily for its service capacity**

#### **Background**

10. For the purposes of paragraph 3, 'equivalent unrestricted land' is a parcel of land that is:
  - a. in the same proximity as the parcel of land being measured;
  - b. capable of providing the same services (or utility) as the parcel of land being measured; and
  - c. not restricted for the public-sector-specific purpose applying to the parcel of land being measured.
11. In June 2020, the Board decided that its tentatively proposed disclosures would apply regardless of whether the difference between the land's fair value measurement and the current market buying price of equivalent unrestricted land:

- a. resulted from explicitly adjusting that current market buying price; or
- b. was implicit in the fair value measurement.

### ***Objectives of tentatively proposed disclosures***

12. The Board's objectives for its tentatively proposed disclosures set out in paragraphs 3 and 5 were to:
  - a. provide useful information to users of financial statements of NFP entities about the amounts deducted from the current market buying price of equivalent unrestricted land to enable them to gain a more informed view of the current value of the service capacity of non-financial assets that are held primarily for their service capacity (including restricted land) and measured at fair value; and
  - b. enable the Board to obtain further detailed information about the aggregate amount deducted from the current market buying price of equivalent unrestricted land, to assess the practical significance of the debate about how to measure the fair value of restricted land.
13. When the Board made its tentative decision in April 2020, the Board considered that there were reasonable grounds to expect these twin objectives could be achieved with only negligible cost and effort for preparers and auditors of financial statements of NFP entities. This was a particularly important expectation for the Board in view of the tentatively proposed disclosures being developed as an interim step in the Board's *Fair Value Measurement for NFP Entities* project. In expressing this expectation, the Board focused mainly on fair value measurement techniques in which valuations of land restricted for a public-sector-specific purpose started with the price of equivalent unrestricted land and explicitly deducted an amount for the effect of the restriction.

### **Discussion of key findings from stakeholder outreach**

#### ***Disclosure of adjustments deducted from the current market buying price of equivalent unrestricted land***

In relation to land that includes a material deducted adjustment to the current market buying price of equivalent unrestricted land because of public-sector-specific restrictions, disclosure of the land's total carrying amount and the amount of the adjustment (paragraphs 3(a) and 3(b) above)

14. Representatives of HoTARAC expressed support for the principle of promoting more transparency about adjustments being applied in respect of restrictions on land, if a reasonable timeframe is given to implement the requirement to make these disclosures. However, for the reasons in paragraphs 15 and 18, they questioned whether increased transparency could be achieved through clear unambiguous requirements without giving rise to undue cost and effort to preparers and auditors of financial statements.
15. Some Panel members commented that, in various jurisdictions, fair value measurements of restricted land are not calculated by starting with the price of equivalent unrestricted land and explicitly deducting an amount for the effect of the public-sector-specific restriction. For example, the effect of a restriction on the use of land, such as parkland, is often reflected implicitly by using a reference parcel of land in a different location with a lower intensity of use (e.g. in valuing inner city parkland, the valuer might refer to the market value of grazing land on the urban fringe of the metropolitan area with no foreseeable development or redevelopment potential at the measurement date, with a much lower value than adjacent unrestricted land).

Those Panel members argued that it would often be costly and difficult to determine the current market buying price of equivalent unrestricted land.

16. Some Panel members also criticised the proposals for specifying the characteristics of the reference parcel of land used as a benchmark in the process of fair value measurement (as drafted in paragraph F29(b) in the Appendix to Agenda Paper 7.2), saying the reference parcel used should vary according to the characteristics of the parcel being valued and the valuation techniques applied.
17. Some other Panel members commented that the proposed disclosures should not give rise to significant cost and effort; they were based in jurisdictions in which valuations of restricted land were normally calculated by starting with the price of equivalent unrestricted land and explicitly deducting an amount for the effect of the public-sector-specific restriction. For example, some valuers mentioned that they typically apply that method when valuing the fair value of restricted land. They would consult with town planners to identify the most likely 'underlying zoning' of the parcel of land being valued (ie the likely zoning of the land if it were not used for a public service). These valuers explained that the zoning of the surrounding land or nearby land (of the land being valued) would often be the underlying zoning of the land subject to measurement.
18. Some Panel members also noted that staff had suggested that, in determining the current market buying price of equivalent unrestricted land, if the entity's parcel of restricted land had adverse physical characteristics (e.g. contamination, being flood prone or having restricted access) not found in the reference parcel of land, it would be necessary to determine whether (and to what extent) the adverse physical characteristic reduced the service capacity of the entity's land. (This suggestion was included in the Panel paper in Agenda Paper 7.2 (Question 5, paragraphs F29(c) and F29(d), and paragraphs BC5 – BC9) in response to a stakeholder's enquiry.) Those Panel members expressed concern that the purpose of this step was unclear and the resulting calculations might be complex, indicating that the starting point for calculating the amount deducted from the current market buying price of equivalent unrestricted land might be difficult and costly to calculate.

In relation to land that includes a material deducted adjustment to the current market buying price of equivalent unrestricted land because of public-sector-specific restrictions, disclosure of quantitative information about the significant unobservable inputs used in the fair value measurement and giving rise to the adjustment referred to in paragraph 3(c) above

19. Some Panel members expressed concern that the AASB is contemplating removing the exemption from paragraph 93(d) of AASB 13 (in respect of restricted land) as part of an 'interim measure' rather than taking a holistic view to disclosures by NFP entities related to fair value measurement. They suggested that a holistic approach is necessary to avoid the risk of frequently changing disclosure requirements (and consequential unnecessary costs for preparers and auditors of financial statements of public sector NFP entities).
20. Some Panel members commented that, where the percentage adjustments to the current market buying prices of parcels of equivalent unrestricted land are significant unobservable inputs used in fair value measurements of parcels of land included in a class of property, plant and equipment, it would not be useful to users to be informed of those adjustments if a wide range were used. For example, the whole-of-government financial statements for the State of Victoria for the year ended 30 June 2019 disclose that, for assets held primarily for generating net cash inflows, the 'CSO adjustment' for the effect of restrictions on land held by metropolitan water corporations ranges from 1% to 92%. Those Panel members expressed the view that disclosure of percentage adjustments (such as 'CSO adjustments') would only be

useful if disaggregated into narrow ranges. However, they also noted that such level of disaggregation would add to the complexity of the notes in the financial statements.

General comments received in relation to disclosures about land that includes a material deducted adjustment to the current market buying price of equivalent unrestricted land because of public-sector-specific restrictions (paragraphs 3(a) – 3(c) above)

21. Some Panel members commented that the costs of changing financial reporting systems and processes to comply with the disclosures described in paragraphs 3(a) – 3(c) would be significant. Some of them questioned the purpose of imposing those disclosure requirements as an ‘interim measure’ if the benefits of those disclosures to users of financial statements would be short-lived. In this regard, some Panel members remarked that the IASB plans to issue an Exposure Draft in early 2021 that includes proposed changes to disclosures about fair value measurements (see paragraphs 46 - 48). Those Panel members expressed concern about the possibility of changing financial reporting systems to comply with the new disclosures in paragraphs 3(a) – 3(c) only to be required to change systems again shortly thereafter in response to an IASB-led change in the disclosure requirements about fair value measurements.
22. Some Panel members commented that only some parcels of land are valued every year and, depending on the length of the valuation cycle, it would take some time to obtain the required information for the disclosures even if valuers provide the necessary information in valuation reports. If the interim step of adding disclosure requirements about discounts for restrictions on land means the new disclosure requirements are only a temporary measure, these members questioned whether the cost and effort required to develop these disclosures would be justified.
23. Some HoTARAC members mentioned that it is too early to comment on the costs involved in preparing the required disclosures because they would need to understand the scope of the disclosures and to have discussions with their valuers to ensure valuation reports have sufficient data for making these disclosures.

Disclosure of adjustments deducted from the current market buying price of equivalent unrestricted land: staff recommendations after considering the issues raised by stakeholders

24. Staff conditionally recommend that, in respect of restricted land, any new disclosures about deducted adjustments to the current market buying price of equivalent unrestricted land proposed as an interim measure should be limited to those in paragraphs 3(a) and 3(b). This is because of the concerns raised by stakeholders about:
  - a. the expected costs to preparers and auditors to provide quantitative information about the significant unobservable inputs used in the fair value measurement of restricted land (which is essentially removing, for restricted land, the exemption in paragraph Aus93.1(a) of AASB 13 from the requirement for NFP public sector entities to provide all the disclosures in paragraph 93(d) of AASB 13<sup>3</sup>); and
  - b. the likely need to provide considerably more disaggregated information about classes of property, plant and equipment including restricted land to make the disclosures meaningful.

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<sup>3</sup> Costs and other implementation issues arising from the disclosures in paragraphs 3(a) and 3(b) are discussed in paragraphs 15–18.

25. In addition, the staff recommendation in paragraph 24 is made because the disclosures in paragraph 93(d) of AASB 13 (ie to disclose quantitative information about the significant unobservable inputs used in the fair value measurement of restricted land) complement the proposed disclosures in paragraphs 3(a) and 3(b) above. That is, although they are likely to provide relevant information to users of financial statements, they are not essential for enabling users to identify the current value of the service capacity of restricted land.
26. Not only would such a change remove the additional cost of compliance with those disclosures, but it would also avoid the need to stipulate disclosure of significant unobservable inputs at a greater degree of granularity than the level of disaggregation currently required by AASB 116 and AASB 13 paragraph 94.
27. Staff note that a possible response to stakeholders' concerns about the practical difficulties arising where deducted adjustments to the current market buying price of equivalent unrestricted land are only implicit in the fair value measurement (i.e. the effect of a restriction on the use of land, such as parkland, is reflected implicitly by using a reference parcel of land in a different location with a lower intensity of use) would be to require the disclosures in paragraphs 3(a) and 3(b) only where valuations are performed by explicitly deducting adjustments from the current market buying price of equivalent unrestricted land. However, this response would seem likely to create the following problems:
  - a. the disclosures about deducted adjustments would provide an incomplete aggregate measure of the difference between fair value measurements for restricted land and the current value of the service capacity of restricted land (thus providing users of financial statements with incomplete information and hindering the Board's efforts in obtaining aggregate quantitative data about the significance of the measurement issue it has been asked to resolve); and
  - b. the burden of the disclosures would not be borne equally by all NFP entities holding restricted land. For example, it would:
    - i. have different effects in different jurisdictions, depending on whether the jurisdiction makes an explicit or implicit adjustment to the current market buying price of equivalent unrestricted land; and
    - ii. result in partial disclosures in jurisdictions in which a mixture of valuation techniques (explicit and implicit adjustments) is used.
28. Moreover, in determining the current market buying price of equivalent unrestricted land, if the entity's parcel of restricted land had adverse physical characteristics (e.g. contamination, being flood prone or having restricted access) not found in the reference parcel of land, it would be necessary to determine whether (and to what extent) the adverse physical characteristic reduced the service capacity of the entity's land (see Question 5, paragraphs F29(c) and F29(d), and paragraphs BC5 – BC9 of the Panel paper composing Agenda Paper 7.2). Therefore, even if the disclosures in paragraphs 3(a) and 3(b) were to be limited to parcels of land for which deducted adjustments to the current market buying price of equivalent unrestricted land were explicit in the fair value measurement, their preparation would potentially still give rise to significant costs. This outcome would be inconsistent with the Board's initial aim of imposing disclosure requirements giving rise to negligible cost and effort for preparers and auditors of financial statements.
29. In relation to the comments noted in paragraph 16 that the proposals unnecessarily specify the characteristics of the reference parcel of land used as a benchmark in the process of fair value measurement, staff consider that some of those comments seemed to conflate the calculation

of the fair value of restricted land with the calculation of a current measure of service capacity—ie current replacement cost calculated without deductions for restrictions—as a benchmark for comparison with fair value measurements incorporating deductions for restrictions. That is, the ‘current service capacity’ disclosure objective of the proposed disclosures in paragraph 3 requires the benchmark for disclosure to be a parcel of nearby land, regardless of the location of the reference parcel of land the entity uses in its fair value measurement. Therefore, the potential practical difficulty described in paragraph 28 seems unavoidable if the disclosures in paragraphs 3(a) to 3(c) were to be required.

30. For these reasons, staff consider it would not be appropriate to pursue further the disclosures in paragraphs 3(a) to 3(c)—or any combination of those disclosures—as an interim step in this project.

**Question 1 to Board members:**

Do Board members have feedback on the disclosures in paragraphs 3(a) to 3(c) as an interim step in this project?

***Disclosure of cost model-based measurements of revalued land restricted for a public-sector-specific purpose***

The main objective for removing the NFP entity exemption from applying paragraph 77(e) of AASB 116 in relation to restricted land held primarily for its service capacity is to disclose the amount originally invested in the service capacity of that land

31. Some Panel members expressed the following concerns about removing the exemption for NFP entities from the requirement in paragraph 77(e) of AASB 116 to disclose the cost model-based carrying amount of restricted land measured under the revaluation basis:
  - a. it is unclear how disclosure of cost model-based carrying amounts of restricted revalued land would provide useful information to users of financial statements of NFP entities. In the public sector, various parcels of land restricted for a public-sector-specific use have been held for scores of years (in some cases, since European settlement) and were obtained without an acquisition cost or for a negligible amount. Even for more recently obtained holdings of restricted land, in many instances a public sector entity obtained the land by transfer from another public sector entity under common control: in these cases, if the land was initially recognised by the current holder at the then-existing fair value of the land, that value does not represent the amount originally invested to obtain the land’s service capacity. Furthermore, the sum of nominal amounts for land held without transfer and then-existing fair values of other land upon its transfer from another public sector entity lacks a common measurement attribute and is not meaningful. These issues generally do not arise for other types of property, plant and equipment, which have a limited useful life and typically would have been acquired more recently by way of purchase; and
  - b. it would often be impracticable to determine the historical cost (or other cost model-based measurement: see paragraph 32) of restricted land, either because the land was obtained before accounting records were kept or (as alluded to in (a) immediately above) the land was obtained by transfer from another commonly controlled public sector entity and information about its then-fair value (as a measure of deemed cost) is not available due to the elapse of time.

32. Staff observe that the cost model-based measurement of any land under AASB 116 (except land with a limited useful life, such as land that will become contaminated and unfit for use) is its cost less any accumulated impairment losses (AASB 116, paragraph 30). Although this paper focuses on disclosing the historical cost of restricted land if the not-for-profit entity exemption in paragraph Aus77.1 of AASB 116 were removed, it would be necessary to, as far as practicable, determine the amount of any unreversed impairment losses that would have been recognised had the cost approach been applied. This project is addressing the fair value measurement and disclosure of non-financial assets held primarily for their service capacity: where land within the project's scope is regularly revalued, it is excluded from the scope of AASB 136 *Impairment of Assets* (under paragraph Aus5.1 of AASB 136). However, that scope exclusion would not apply to the calculation of hypothetical cost model-based disclosures under paragraph Aus77.1 of AASB 116.
33. Staff consider that, if the disclosure exemption in paragraph Aus77.1 of AASB 116 (from the cost model-based disclosure requirement in paragraph 77(e) of AASB 116) were removed, the disclosure requirement should be limited to the land's acquisition cost because:
- a. it would avoid the significant practical difficulty of retrospectively determining the amount of impairment losses not previously recognised because the revaluation model was being applied; and
  - b. the disclosure of hypothetical impaired values for revalued assets seems unrelated to the objective (within the context of this project) of the cost model-based carrying amount, namely, to disclose the amount invested by the entity in the service capacity of its restricted land.
34. Staff considered whether the main objective for removing the NFP entity exemption from applying paragraph 77(e) of AASB 116 in relation to restricted land held primarily for its service capacity—namely, to disclose the amount originally invested in the service capacity of that land—might be met to a significant extent by narrowing the scope of that disclosure requirement for restricted land. Specifically, staff considered whether there is merit in making paragraph 77(e) of AASB 116 mandatory for NFP entities but only in relation to land acquired from private sector entities. Possible arguments for that scope of the disclosure requirement are that the requirement would:
- a. discharge accountability for purchases of land at their market value from private sector entities where those invested amounts were written down because they became subject to public-sector-specific restrictions (see paragraph 35); and
  - b. possibly reduce significantly the practical implementation difficulties of making the disclosures that are described in paragraph 28.
35. Some stakeholders argued that proposed disclosures about the cost of restricted land might be more useful to users of financial statements of local governments than to users of financial statements of other levels of government. The reason for considering that disclosure of historical cost measurements might be more useful for users of financial statements of local governments was not specified; however, in light of other commentators mentioning that government departments often acquire land via transfer from commonly controlled entities, it might be considered by some that local governments are more likely to acquire land by paying public monies to non-government entities and that this feature increases the relevance of disclosures of historical cost measurements compared with their relevance to users of financial statements of entities within a Federal, State or Territory Government.

36. Despite the arguments in paragraph 34, restricting the scope of paragraph 77(e) of AASB 116 (for restricted land held by NFP entities) to land acquired from private sector entities would:
- a. be likely to create implementation difficulties because NFP entities would need to have retained records of the source (by sector) of each acquisition of restricted land;
  - b. create the difficult challenge of articulating the purpose of the scope limitation, particularly to users of financial statements; and
  - c. seem unlikely to largely remove the difficulties in identifying the acquisition cost of restricted land within the scope of the disclosure, because some NFP entities would have purchased land from private sector entities many years ago.
37. Therefore, on balance, staff consider that it would be preferable not to propose limiting the scope of paragraph 77(e) of AASB 116 to land acquired from private sector entities.
38. Another approach the Board might wish to consider is to propose requiring disclosure of the historical cost of restricted revalued land only in respect of land acquired after the application date of the Amending Standard imposing the disclosure requirement (ie applying the disclosure prospectively). Such an application provision seemingly would overcome the implementation difficulties noted in paragraph 31 regarding identifying the acquisition cost of restricted revalued land. Its main disadvantage is that significant holdings of restricted land would be exempt from its scope, providing a limited view of the amount invested in the service capacity of restricted land. However, that disadvantage would be ameliorated over time, as more and more acquisitions of restricted land occur (including acquisitions via transfer from commonly controlled entities, such as transfers between government departments). Staff consider that, on balance, if the Board decides to remove the NFP entity exemption from paragraph 77(e) of AASB 116 in relation to the historical cost of revalued restricted land, the best approach would be to apply the disclosure requirement prospectively (whilst permitting NFP entities to elect to apply the disclosure requirement retrospectively).
39. Another issue identified by staff regarding the disclosure in paragraph 77(e) of AASB 116 is whether that disclosure should be required for each reporting period or only for a shorter duration. The Panel Paper in Agenda Paper 7.2 sets out two options for the duration of the disclosure requirement, namely:
- a. Option 1: the land was acquired during the reporting period and incurred a material deducted adjustment to reflect its restricted public-sector-specific purpose; or
  - b. Option 2: the land was subject to a material deducted adjustment during the current period and that adjustment arose from the land's first revaluation or impairment loss since it was acquired.
40. In relation to Option 1, disclosure of the restricted land's acquisition cost incurred in the current period is already required by paragraph 73(e)(i) of AASB 116. The main changes that would result from removing the disclosure exemption for restricted land would be:
- a. highlighting the acquisition and linking it with the recognised fair value movement, which would either be a revaluation decrease or an impairment loss (where the impairment loss is measured by reference to the asset's fair value less costs of disposal in accordance with paragraph 6 of AASB 136 *Impairment of Assets*); and
  - b. providing information on a disaggregated basis: if restricted land is a component of a class of property, plant and equipment, applying paragraph 73(e)(i) of AASB 116

would not isolate the acquisition cost of restricted land. In contrast, under Option 1, the disclosure of acquisition cost under paragraph 77(e) of AASB 116 would be required specifically in respect of restricted land.

41. The scope of Option 2 would often have the same effect as Option 1, because restricted land's acquisition cost would often be incurred in the same period as the initial deducted adjustment. However, the first revaluation of a parcel of restricted land might occur up to five years after acquisition, as part of a cyclical revaluation of a class of assets in accordance with paragraph 34 of AASB 116. Similarly, the first impairment loss (if any) might occur in a period after the period of acquisition. Option 2 would be more comprehensive in scope than Option 1. Its suggested scope was limited to initial revaluations or impairment losses because, over time, the acquisition cost of a parcel of land would become a less faithful measure of the land's current service capacity.
42. A third option ('Option 3')<sup>4</sup> is to require the disclosure in paragraph 77(e) of AASB 116 for restricted land on an ongoing basis. The reason for adopting this option would be that the purpose of requiring the disclosure in paragraph 77(e) of AASB 116 for restricted land is to enable users to see the amount originally invested in the service capacity of the restricted land—this is not necessarily the same as the current value of the land's service capacity. Consequently, the usefulness of the disclosure does not diminish over time (staff acknowledge that the disclosure does not provide the same level of insight into the service capacity of restricted land as disclosures regarding the current market buying price of equivalent unrestricted land).
43. The main themes from stakeholder feedback (in addition to the implementation issues noted in paragraph 31) were that:
  - a. views were mixed regarding the usefulness of disclosure of the historical cost of revalued restricted land; and
  - b. of those who supported disclosure of the historical cost of revalued restricted land, views were mixed regarding which of the three options described above (regarding duration of the requirement) would be preferable.
44. For that reason in paragraph 42, and noting the lack of a clearly preferred approach expressed by stakeholders consulted, staff consider Option 3 to be the best of the three options identified above in relation to the duration of any requirement to apply the disclosure in paragraph 77(e) of AASB 116 to revalued restricted land.
45. For the reasons discussed in paragraphs 31 to 44, staff recommend giving consideration to proposing (in due course) that paragraph 77(e) of AASB 116 should become mandatory for NFP entities in relation to revalued land, but also that:
  - a. the disclosure should only be made of acquisition cost, and not the recoverable amount at which the land would have been carried if the land hypothetically had been measured under the cost model; and

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<sup>4</sup> This option was not included in the staff paper for the 14 August 2020 Panel meeting, but was canvassed orally by staff during the Panel meeting and discussed in outreach with users of financial statements.

- b. the disclosure requirement should apply prospectively from the date of the Amending Standard (whilst NFP entities are permitted to elect to apply the disclosure requirement retrospectively).

**Question 2 to Board members:**

Do Board members have feedback on whether NFP entities should make ongoing disclosure of the acquisition cost and related revalued carrying amount of revalued restricted land?

**Section 2 – Proposed updated project milestones and timeline**

46. The IASB plans to expose proposed amendments to the disclosure requirements of IFRS 13 in the first half of 2021 as part of its *Disclosure Initiative – Targeted Standards-level Review of Disclosures* project. In this project the IASB is exploring whether to move away from the current prescriptive language when drafting disclosure requirements to a more objectives-based approach.
47. The IASB has tentatively decided to introduce a high-level, catch-all disclosure objective in addition to the specific disclosure objectives in IFRS 13. These objectives would require an entity to disclose information that enables users of financial statements to:
- understand the amount, nature and other characteristics of the classes of assets, liabilities and an entity’s own equity instruments within each level of the fair value hierarchy;
  - understand the significant techniques and inputs used in deriving its fair value measurements;
  - understand the drivers of changes in the fair value measurements from the beginning of a reporting period to the end of that period; and
  - understand the range of reasonably possible fair values at the reporting date for the assets, liabilities and an entity’s own equity instruments measured at fair value.
48. Staff will continue monitoring this project and assess how the proposed changes in IFRS 13 might impact the Board’s proposed disclosures about adjustments deducted on restricted land.
49. 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
<p><b>June – September 2020</b> <i>(in progress)</i></p> <p><b>16-17 September 2020:</b> Board meeting</p>	<p>Staff to continue consulting with:</p> <ul style="list-style-type: none"> <li>• Users and other stakeholders, including the project’s Project Advisory Panel, about the proposed disclosures; and</li> <li>• users about whether they seek information primarily about service capacity or cash-generating ability in current value measurements of restricted land.</li> </ul> <p>Subject to feedback from stakeholders, staff to analyse the costs and effort required to prepare the proposed disclosures about <b>discounts</b> on restricted land.</p> <p>Board to consider options regarding which disclosures to mandate about restricted land if the Board promulgates disclosure requirements.</p>

Meeting / Deliverable	Project Milestones
<b>11-12 November 2020:</b> Board meeting	Present staff analysis of possible options to: <ul style="list-style-type: none"> <li>• progress the measurement considerations in respect of restricted land;</li> <li>• enhance disclosures about restricted land; and</li> <li>• provide guidance regarding assets measured at current replacement cost.</li> </ul>
<b>November 2020 – February 2021</b>	Subject to Board decisions at November 2020 meeting: <ul style="list-style-type: none"> <li>• staff to update draft ED based on decisions made in the November Board meeting; and</li> <li>• staff to perform further targeted consultation on any remaining key issues.</li> </ul>
<b>March 2021:</b> Board meeting	Board to consider a pre-ballot draft of the ED reflecting outcome of further targeted consultations since November 2020 meeting.
<b>March – April 2021</b>	Subject to Board decisions at March 2021 meeting, Board to vote on the Exposure Draft out of session with a two-week voting period. Voting period ends 2nd week of April 2021 (Easter falls in first week).
<b>Mid-April 2021</b>	Issue ED for public comment for a period of 90 days. Comment period ends mid-July 2021.
<b>September 2021:</b> Board meeting	Board to consider Staff paper and comments on the ED and decide on the amendments/guidance and next steps of the project.

**Question 3 to Board members:**

Do Board members agree with the staff's proposed project milestones and timeline?