This is a copy of the staff paper for the Project Advisory Panel meeting held on 14 August 2020, annotated with summary of feedback received from stakeholders. Beneath the questions for Panel members (some of which are grouped because feedback was provided on some questions jointly) is a summary, and details, of comments received from Panel members. Comments were also received from some members of the Financial Reporting and Advisory Committee (FRAC) of the Australasian Council of Auditors General (ACAG), a Local Government Association from one State, and various users (or stakeholders using information as advisers) consulted during outreach activities. Commentators are not named, because comments were elicited on an informal confidential basis.

Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Fair Value Measurement for Not-for-Profit Entities**	**Meeting:**	Project Advisory Panel (14 August 2020)
Topic:	**Proposed disclosures about restricted land**		
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Objective of this Panel meeting

1. The objective of this meeting is to obtain views from Panel members on the Board's tentative decision to propose a requirement for not-for-profit (NFP) public sector entities to provide additional disclosures about their restricted land held primarily for its service capacity.

Reasons for bringing this paper to the Panel

2. The Board noted that it would take considerable time to:

   (a) consult with users of public sector entities' financial statements about their information needs regarding the current value of restricted non-financial assets of NFP entities held primarily for their service capacity; and then

   (b) complete its deliberations regarding the fair value measurement of restricted assets and right-of-use assets arising under concessionary leases.

3. At the April 2020 AASB meeting, 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.

4. One of the key proposals[1] 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).

5. The tentatively proposed disclosure would apply regardless of whether the difference between the land's fair value measurement and the current market buying price of equivalent unrestricted land resulted from explicitly adjusting that current market buying price.

6. For the purposes of paragraphs 4 and 5, '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.

7. The Board asked staff to obtain further views from public sector stakeholders about the above proposals; in particular, to obtain an understanding about the impact of those tentatively proposed disclosures on current valuation practice (including cost and operationalisation considerations).

8. Staff plan to discuss stakeholders' feedback on the above tentatively proposed disclosures at the September 2020 AASB meeting as part of the Board's further deliberations including consideration of measurement and disclosure options. The meeting is scheduled for 16–17 September 2020.

9. Accordingly, at this meeting the AASB project team would like to obtain feedback from Panel members about the staff's working draft amendments to AASB 13 regarding the proposed disclosures outlined in the Appendix.

10. Additionally, the AASB project team would also like to obtain Panel members' views on an additional disclosure suggestion outlined in paragraphs 11–16 below.

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[1] The Board has 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.

Additional disclosure suggestion

11. Another issue on which the Board seeks feedback from stakeholders is whether they would support a 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) 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). Factors the Board considered when providing this exemption were:

    (a) it would be onerous for NFP entities to recalculate the carrying amount of property, plant and equipment on a different measurement basis, particularly depreciable assets; and

    (b) historical cost basis information would add little relevant information when assets are measured at fair value, and would add clutter to the financial statements. The Board noted that IPSAS 17 *Property, Plant and Equipment* does not include the disclosure requirement in paragraph 77(e) of IAS 16.

12. The possible proposed removal of the not-for-profit entity exemption in paragraph Aus77.1 of AASB 116 would apply to not-for-profit public sector entities in respect of land restricted for a public-sector-specific purpose. Restricted land can be considered a special case regarding the disclosure requirement in paragraph 77(e) of AASB 116. It would generally be unnecessary to recalculate the cost of land each period, and the disclosure–being limited to restricted land—should not give rise to clutter. Moreover, the practice of recognising deducted adjustments from amounts invested in some parcels of restricted land arguably makes disclosure of cost-based measures particularly relevant to restricted land (see paragraph 15 for discussion of the relevance of this disclosure in relation to restricted land).

13. For the purpose of discussion, the working assumption is that this disclosure suggestion would apply regardless of whether the disclosures in paragraph 4 above were to be required.

14. To limit the cost and effort of making the disclosure referred to in paragraph 12, and because the carrying amount that would have been recognised had the restricted land been carried under the cost model would, over time, diminish in relevance as a measure of the land's service potential, the possible proposed disclosure might only apply in the circumstances set out in either of the following options:

    (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.

15. Under Option 1, removing the exemption for such land would inform users of the amount invested during the current period in the service potential of land acquired primarily for its service potential, which might be useful for discharging accountability for those invested amounts if they became subject to public-sector-specific restrictions and were adjusted down. Note that 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 only change that would result from removing the exemption for restricted land in this manner would be 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*).

16. 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 is 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 potential. In addition, it would often be difficult to identify the cost of restricted land acquired many years beforehand, because the public sector entity might not have adopted full accrual accounting at that time or the land might have been donated and the then-existing fair value of the land (as a deemed cost measure) might be impossible to determine retrospectively.

Questions for Panel members

Questions 1-10 below are in relation to the tentatively proposed disclosures outlined in the Appendix. Question 11 below relates to the additional disclosure suggestion in paragraphs 11–16.

Q1. To what extent would providing those disclosures entail a change in practice (eg in how valuations of land will be carried out)? If you think obtaining the necessary information would be impracticable, please provide your reasons.

Q2. To what extent would the cost of preparing financial statements be likely to increase as a result of providing the information in the tentatively proposed disclosures?

Q3. What are your views regarding the cost and effort necessary to make the disclosures, particularly when weighed against any benefits to users you consider would result from providing the disclosures?

Feedback on Questions 1 – 3	
Project Advisory Panel (P), ACAG-FRAC member (F) and Local Gov't Association (LGA)	**Users: Taxpayers' Rep. Body (TP), public policy adviser (PA) and macro. analyst (M)**
Summary of feedback	
Most commentators indicated an expected significant increase in cost and effort to make the disclosures in paragraph 4 (as outlined in the Appendix), without equal or greater benefits to users of financial statements. Some commentators said more work needs to be done to identify users and their information needs. Some 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, saying the reference parcel used should vary according to the characteristics of the parcel being valued and the valuation techniques applied. A minority of commentators supported the disclosures on the basis that, in their experience, valuations of restricted land currently are performed by explicitly adjusting the current market buying price of equivalent unrestricted land and, therefore, the	Mixed views were expressed, ie there was not clear support for the proposed disclosures, including the two taxpayer representative bodies who commented expressed different views about whether the disclosures would provide relevant information to users.

information needed for the disclosures is readily available and can be reported and audited without significant cost. Some commentators specifically mentioned the likely usefulness of the proposed disclosures to users of financial statements of local governments, although not all of them went on to conclude that the benefits of the disclosures would be likely to exceed their costs.	
Detailed feedback	

• **(LGA):** It would be more useful if public sector entities' financial statements reflected the service potential of restricted land (normally represented by the current replacement cost of the land's capacity to provide needed services) than the amount of net cash inflows that the restricted land is able to generate directly under its restricted use. Consistent with that view, the LGA commented it would be useful to make the disclosures referred to in paragraph 4 above.
 	
Notwithstanding their comments on the various questions, they are of the view that, since producing and disclosing this type of information is not costless, it is important to determine whether there is benefit to users of the information. Consequently, we believe that for local government authorities there would be considerable value in determining who the users of financial statements are and what are their information needs.
• **(F):** Providing the disclosures would entail a significant change in practice for three States but not a significant change for another State, where the information is available (and where there would not be a significant increase in the cost to prepare and audit the disclosures).
• **(F):** In one State, it would require a high degree of judgement, and be highly costly and time consuming to separate the deducted adjustment between the legal, physical and financially feasible factors; and in turn to prepare and audit the disclosures.
• **(F):** In one State, different techniques are used throughout the public sector regarding the 'reference' land used for valuations: some parcels of reference land
	• **(TP):** Staff of a taxpayers' representative body commented that:
	  • it would be very useful if the disclosures referred to in paragraph 4 above were made; and
	  • it is important that all State and Territory Governments disclose this information to enable comparisons to be made.
	• **(TP):** These disclosures are not supported: they are overly prescriptive and do not take into consideration the fact that the highest and best use of the assets is not always achievable due to a range in factors including:
	  ○ there is rarely a market for such hypothetical sales;
	  ○ existing zoning restrictions and the limited utility of many public sector assets;
	  ○ many assets are not readily replaceable; and
	  ○ many assets are not held to generate cash inflows.
	
	Qualitative information about the approach used and the percentage level of deduction would be sufficient.

are adjacent to the parcels of land being valued, and other parcels of reference land are land with comparable size and topography. Consequently, comparisons of the deducted adjustments would be based on a flawed assumption of a common reference point. In two other States, the deducted adjustment is not readily identifiable in fair value measurements. • **(F):** One FRAC member commented that most land is unlikely to be replaced—therefore, disclosing adjustments to current market buying prices is unlikely to provide useful information to users of financial statements. • **(F):** One FRAC member commented that it would be preferable for the AASB to specify on which basis fair values of restricted land should be estimated, rather than imposing costs to make the suggested disclosures. • **(P):** One Panel member advised that HoTARAC's view is that, whilst it supports the principle of transparency about fair value measurements, the costs of making the proposed disclosures are likely to be considerable and exceed the resulting benefits. • **(P):** One Panel member questioned the usefulness of showing a hypothetical value of the land by using the market value of neighbouring land as a reference point, because the public-sector-specific use is unlikely to be changed. For example, a highway would always be a highway and a school will almost always remain a school. Also, it would be difficult to identify the equivalent unrestricted land in some circumstances. For example, a public school situated next to a highway. That Panel member and another Panel member argued that valuing land (e.g. land under a school) by reference to the market value of adjoining land involves a circularity, because both parcels of land affect each other's market value. For example, parkland would tend to add amenity (value) to neighbouring properties, while a rubbish tip would reduce the amenity (value) of neighbouring properties. Since the public-sector-specific purpose imposed on a parcel of land may affect the value of the neighbouring properties, they do not think using the value of land in the same proximity would always be the best basis to measure the fair value of the land subject to measurement.	Guidance issued by valuers should uniformly disclose discounts on restricted land as a matter of course. The AASB has presumed that the values of restricted land may be understated in financial statements of public sector entities. However, the reverse may also be true. • A credit ratings agency indicated they do not consider detailed information (eg disclosures) about assets held by public sector entities. Noting that public sector assets are generally highly restricted and unavailable for sale, they focus on public sector entities' liquidity, debt levels, operating revenues and operating expenses. • **(PA):** Three public sector policy advisers indicated they do not use statements of financial position of public sector entities for the assessments they make, mainly because their assessments are based on expenditures for particular purposes. **(PA):** One of those public sector policy advisers indicated that, if they were to consider the values of assets when making economic assessments, they would focus more on those assets' current cash equivalents (selling prices) rather than their 'economic value' (i.e. service potential). • **(M):** A macroeconomic analyst commented that information both about the current cash equivalent of, and the current value of service potential embodied in, restricted land would be useful. The latter amount represents the amount of invested capital saved by already possessing the restricted land.

One of those Panel members argued that, to overcome this circularity problem, it is necessary to refer to the value of *en globo* (undeveloped) land, which tends to be found only on urban fringes. The other Panel member noted that, for land under marine parks, the land is valued by reference to desert land—this illustrates the inappropriateness of assuming that the reference parcel of land is always in the same proximity as the parcel of land being valued. • **(P):** In addition, one of those Panel members commented that AASB 13 notes the use of current replacement cost in many cases for measuring the fair value of specialised assets, but does not mention its use for measuring the fair value of restricted assets. Therefore, they argued, using current market buying price as a benchmark for disclosures about restricted land is questionable. • **(P):** Two Panel members commented that, before imposing costs on public sector entities to obtain and report information about fair value measurements, it would be important to understand what users need (and, therefore, what the benefits of the disclosure requirements would be). One of them commented that, however, there appear to be not many 'users' of public sector entities' financial statements. This is because entities or people who have the capacity to obtain information about an entity and therefore do not rely on the general purpose financial statements do not meet the definition of 'users' in the Conceptual Framework. For example, parliamentarians can obtain the specific information they need about a public sector entity without referring to the general purpose financial statements and, therefore, should not be considered users. • **(P):** Another Panel member commented that it is important to remember that, at the local government level, there are many users of general purpose financial statements. Another member also agreed that the proposed disclosures might be useful to users of local governments' financial statements, but added that if local governments consider this information to be important to users, they can elect to make the disclosures under AASB 101 *Presentation of Financial Statements*. They argued that the information value of the proposed disclosures is marginal at best for public sector entities or, if useful, the information can be obtained through other means than general purpose financial statements. Furthermore, they argued	

it is important to remember that users generally rely on the preparation and audit of financial statements to ensure public sector entities discharge their accountability (rather than making marginal decisions based on particular disclosures) and that such reporting and auditing needs to be carried out in accordance with a clear easily understood framework—they consider that the proposed disclosures are incompatible with those basic principles. • **(P):** One Panel member commented that disclosure about the objective of the adjustments being applied to land might be more useful to users than disclosing the amount being deducted. They noted that the amount deducted is a very aggregated disclosure, combining information from different sources. For example, land under some schools is valued by reference to the market value of land under other schools (encompassing the restricted use as a school) whilst the reference land for land under other schools might be unrestricted land from which an adjustment is deducted. Therefore, the aggregate adjustments would be heterogeneous and consequently of limited usefulness to users of financial statements. • **(P):** Two Panel members commented that valuers should not find it difficult to separate the adjustments made for the public-sector-specific purpose (known as Community Service Obligations (CSO) adjustments) from other adjustments. • **(P):** A Panel member commented from a heritage assets perspective that the benefits of the disclosure would not outweigh the cost.	

Q4. Paragraph F27(b) emphasises that the proposed disclosure requirement in paragraph Aus93.2 applies regardless of the valuation technique used to measure the fair value of that land (see paragraph Aus93.2(b)). For example, as discussed in paragraph BC10 of the Appendix, the requirement would apply regardless of whether the 'explicit adjustment method[2]' or the 'implicit adjustment method[3]' is used to measure the fair value of restricted land.

Do you agree with the broad scope of possible proposed disclosures in paragraph Aus93.2? In particular, please provide your views on the costs and benefits of disclosing the adjustment deducted from the current market buying price of equivalent unrestricted land when the adjustment is implicit in the valuation technique applied.

Feedback on Question 4	
Project Advisory Panel (P), ACAG-FRAC member (F) and Local Gov't Association (LGA)	**Users: Taxpayers' Rep. Body (TP), public policy adviser (PA) and macro. analyst (M)**
Summary of feedback	
Mixed views received on the scope of the disclosures (bearing in mind that most commentators other than users disagreed with requiring the disclosures, regardless of whether deductions from the current market buying price of equivalent unrestricted land are made explicitly or implicitly: see feedback above on Questions 1 – 3).	No views provided.
Detailed feedback	
• **(F):** In one State, the technique used by local governments varies depending on whether a private sector valuer is used.	

[2] Explicit adjustment method uses a top-down approach – using the price of adjacent/nearby unrestricted land and explicitly deducting an adjustment for the effect of the public-sector-specific restricted use.

[3] Implicit adjustment method uses a bottom-up approach – using the price of land with a much lower intensity of use—and, consequently, a much lower value—than adjacent/nearby land and not explicitly deducting a discount for the effect of the restriction because it is implicitly taken into account by using cheaper land in a lower-intensity-of-use location as a reference.

• **(P):** One Panel member disagreed with requiring the disclosures to be made regardless of whether the 'explicit adjustment method' or 'implicit adjustment method' is used, because where the 'implicit adjustment method' is used, the cost of calculating these disclosures will be excessive. • **(P):** Another Panel member indicated that the valuation report should disclose explicitly the adjustment (if any) deducted from the current market buying price of equivalent unrestricted land, and therefore there should be no need for exemption from the disclosures where an 'implicit adjustment method' is applied.	
• **(P):** Another Panel member commented that when valuing a particular parcel of land requires the use of unobservable inputs, the proposed disclosures add a layer of complexity for no apparent benefit to users.	
• **(P):** Yet another Panel member said it was unclear why the Board's proposals are focused on land only, when a common framework should be applied to all fair value measurements of property, plant and equipment.	

Q5. Paragraphs F29(c) and F29(d) state that the adjustment disclosed in relation to paragraph Aus93.2(b) excludes any amounts deducted from the current market buying price of reference land to reflect adverse physical characteristics that are specific to the entity's parcel of land (eg contamination, being flood-prone or having restricted access) and either:

(a) reduce the service capacity of the entity's parcel of land (thus being adjusted for in determining the current market buying price of equivalent unrestricted land); or

(b) do not arise from restrictions to hold the land for a public-sector-specific purpose (see also paragraphs BC5–BC9).

Would the exclusion of amounts deducted from the current market buying price of reference land to reflect adverse physical characteristics in the circumstances referred to in (a) or (b) in this question cause any significant implementation issues (such as significant additional cost and effort, or difficulties in identifying whether adverse physical characteristics reduce the service capacity of the entity's parcel of land or in identifying which adverse physical characteristics of a parcel of restricted land, compared with the physical characteristics of equivalent unrestricted land, stem from a public-sector-specific restriction)?

Feedback on Question 5	
Project Advisory Panel (P), ACAG-FRAC member (F) and Local Gov't Association (LGA)	**Users: Taxpayers' Rep. Body (TP), public policy adviser (PA) and macro. analyst (M)**
Summary of feedback	
Mixed views were expressed, but most of the commentators found the notion confusing, difficult to apply, or both.	No comments (question not asked because it seemed too technically complex to raise with a variety of users not necessarily conversant with both fair value measurement and valuation techniques).
Detailed feedback	
• **(P):** A Panel member mentioned that some valuation reports do not separately report the adjustment for the public-sector-specific purpose from adjustments made for other purposes. Valuers would need to change how they prepare valuation reports. • **(P):** Several Panel members commented that how paragraph F29 is currently drafted is very confusing and it is difficult to understand the proposed requirements. One of them said they understood the issues surrounding flood-prone land, but not the remainder of the discussion about adverse physical characteristics. • **(P):** One Panel member said that the Board would need to educate valuers on the meaning of a public-sector-specific purpose and how the adjustment made can be separated from other adjustments. They commented that the valuation of land introduces many unique factors involving situation-specific judgement and that it is unrealistic to expect valuations of land to be disaggregated according to a single classification scheme as if all valuations are performed using a single formula.	N/A

• **(P):** Two Panel members (both valuers) argued that the exclusion of amounts deducted from the current market buying price of reference land to reflect adverse physical characteristics should not cause any significant implementation issues: o one of them said this is because, under normal valuation practice, the valuer would already have made these adjustments when determining the value of 'prior to restriction' adjustments; and o the other Panel member commented that valuers following the guidance issued by the Victorian Valuer-General should not find that separating the adjustments made for the public-sector-specific purpose (known as Community Service Obligations (CSO) adjustments) from other adjustments to be difficult. This is because the CSO adjustments are clearly stated in the guidance. This member also commented that the proposed disclosures could be made under the same categories as how the CSOs are defined in the Valuer-General's guidance, which would solve the issue of aggregating assets with different adjustments into one category. • **(P):** Two Panel members commented that the relative importance of physical and legal restrictions affecting a parcel of land often changes over time (e.g. in cases of cemeteries and council tips). They asked why the Board would want to isolate different factors in fair value measurements, and said greater clarity is needed regarding the meaning of 'adverse physical characteristics'. One of them gave the example of land under dams, arguing that the land becomes consumed upon the dam's construction (i.e. the land and the dam become a single resource)—in such cases, separate valuation of adverse physical characteristics is impracticable and meaningless. The other member argued that, in relation to the example provided of unexploded ordnance, the land becomes progressively more 'impaired' each year: separate disclosure of adverse physical characteristics would give rise to significant complexity.	

Q6. Would the proposed disclosures outlined in the draft paragraph Aus93.2 and the application guidance in paragraph F27 be more useful to users of financial statements if they were disclosed:

(a) for each class of land, which often would involve disclosure only in aggregate for all restricted land of an entity; or

(b) separately for each subclass of land (eg land under roads and land under hospitals, disclosed separately by nature based on different valuation methodologies used)?

Q7. In regard to Question 6, would the usefulness of disclosing the information in paragraph Aus93.2 for numerous subclass of land be likely to be outweighed by the additional volume and complexity of disclosures in the financial statements?

To what extent would the cost of preparing financial statements be likely to increase as a result of providing the information for each subclass of land?

Feedback on Questions 6 – 7	
Project Advisory Panel (P), ACAG-FRAC member (F) and Local Gov't Association (LGA)	**Users: Taxpayers' Rep. Body (TP), public policy adviser (PA) and macro. analyst (M)**
Summary of feedback	
Strong support was expressed for requiring that, if any disclosures about amounts deducted for restrictions on land are required, they should be required for each sub-class of land to make the disclosed inputs and deductions more meaningful. This feedback relates to the granularity of disclosures, and not whether disclosures are supported *per se* (see comments above on Questions 1 – 3).	Of the small number of responses (2) through user outreach on these questions, strong support was expressed for requiring that, if any disclosures about amounts deducted for restrictions on land are required, they should be required for each sub-class of land.
Detailed feedback	
• **(LGA):** It would be more useful if the disclosures were made separately for each subclass of land, notwithstanding that this may incur additional cost. However, there would need to be consideration of the cost of providing this information and the potential benefits that it would yield. It would be useful to disclose the discount factor for each subclass.	• **(TP):** The approach to the extent of disaggregation should be determined by materiality or usefulness. There is merit in disclosing separately each sub-class of land where the valuation approach varies.

• **(F):** One FRAC member commented the disclosure of the amount of the deducted adjustment would not be useful to users unless disclosure is also made of the reason for the adjustment, how the adjustment was applied, the sources used for it and the judgements made in determining its amount. • **(P):** A few Panel members noted that a variety of methods and discounts are being applied to similar types of land (for example, a range of discounts being applied to school land). They questioned the usefulness of aggregating these heterogeneous 'discounts' in a note disclosure. • **(P):** One Panel member recommended that the Board provides pro forma examples of disaggregations and calculations during its future outreach activities, because they found the questions confusing and the aggregated disclosures seem obtuse. They said highly aggregated disclosures might disappoint users of financial statements, and it would be helpful for commentators to see the implications of the proposed disclosures. • **(P):** One Panel member argued that the disclosures would be more useful to be made on a class-of-land basis.	• **(TP):** Staff of a taxpayers' representative body commented that a blanket statement that discount factors range from 10% to 90% may not add much value; and that, if the discount were stated, it would be helpful to state the rationale behind the discount calculations, including variables and weights placed on each variable that enabled the entity to determine the discount percentage. They commented that it would be useful if the disclosures were made separately for each subclass of land (e.g. land under roads, and land under hospitals) but employing a dollar value cap to limit the volume and complexity of disclosures.

Q8. Do you agree that the disclosures listed in paragraph F28(b)(i)-(iii) would be necessary to satisfy the existing requirement of paragraph 93(d) of AASB 13 to disclose the inputs used in the fair value measurement, if either the market approach or cost approach is used?

Feedback on Question 8	
Project Advisory Panel (P), ACAG-FRAC member (F) and Local Gov't Association (LGA)	**Users: Taxpayers' Rep. Body (TP), public policy adviser (PA) and macro. analyst (M)**
Summary of feedback	
Mixed views were expressed by the two commentators who responded to this question.	No comments received (question not asked because it focuses on whether particular disclosures are interpreted as falling

	within the existing requirements of AASB 13, rather than on whether users want those disclosures).
Detailed feedback	
• **(P):** one Panel member said that, in contrast with draft paragraph F28(b)(ii), valuation reports in their jurisdiction make no mention of adjustments for the risk that the restriction affecting the parcel of land being valued will not be able to be removed; and • **(P):** another Panel member expressed a view that the current level of disclosure of valuation inputs is insufficient: the notes are very broad and often do not include any information about the inputs or their source.	

Q9. Do Panel members have any other comments on staff's draft amendments to AASB 13 as currently drafted?

Feedback on Question 9
Only one comment (supportive) received explicitly on this question, from one Panel member.

Q10. Are amounts deducted from the current market buying price of equivalent unrestricted assets (either explicitly or implicitly) for assets other than land (eg buildings or other improvements on restricted land) that are restricted for a public-sector-specific purpose? If yes, please indicate the nature of those assets. Also, please indicate whether those assets are measured at Level 3 of the fair value hierarchy in AASB 13.

Feedback on Question 10	
Project Advisory Panel (P), ACAG-FRAC member (F) and Local Gov't Association (LGA)	**Users: Taxpayers' Rep. Body (TP), public policy adviser (PA) and macro. analyst (M)**
Summary of feedback	

The feedback received was consistent with previous advice to the Board that deductions generally are not made from the current market buying price of improvements on land (eg buildings) when determining the fair values of those assets.	No comments received (question not asked because it focuses on current reporting practices rather than user information needs).
Detailed feedback	
• **(F):** Three FRAC members are unaware of other classes of non-financial assets with deducted adjustments included in fair value measurements; another FRAC member is unaware of such adjustments to the extent of those affecting land. • **(P):** One Panel member (a valuer) said they don't believe amounts are deducted from current market buying prices of assets other than land. They said their practice is to consider the overall obsolescence and modern equivalent of the non-land asset to firstly determine its replacement cost.	

Q11. In respect of the additional suggested disclosure described in paragraphs 11–16 above, do you agree that the carrying amount of restricted land that would have been recognised had it been carried under the cost model should be disclosed? If so, do you prefer Option 1 or Option 2? To what extent would the cost of preparing financial statements be likely to increase as a result of providing that additional information?

Feedback on Question 11	
Project Advisory Panel (P), ACAG-FRAC member (F) and Local Gov't Association (LGA)	**Users: Taxpayers' Rep. Body (TP), public policy adviser (PA) and macro. analyst (M)**
Summary of feedback	
Views were mixed regarding the usefulness of disclosing the historical cost of revalued restricted land. Of those who supported its disclosure, views were mixed regarding whether disclosure should occur: • If the land was acquired during the reporting period and incurred a material deducted adjustment to reflect its restriction;	Moderate support was expressed for historical cost-based disclosures, but only in the period in which an adjustment is first deducted to reflect a public-sector-specific restricted use.

• if the land was subject to a material deducted adjustment to reflect its restriction during the current period and that adjustment arose from the land's first revaluation or impairment loss since it was acquired; or • in every reporting period.	
Detailed feedback	
• **(LGA):** It would be useful if the land's historical cost were reported, irrespective of whether fair value is less than historical cost, in each reporting period subsequent to when the land was acquired. Disclosure of the historical cost of other types of property, plant and equipment would provide useful information. This is a required disclosure for for-profit entities. Historical cost represents a more reliable and verifiable measure of 'cost' when compared with fair value, which is calculated using valuation techniques that rely on assumptions. • **(P):** One Panel member strongly disagreed that historical information required under paragraph 77 of AASB 116 would be relevant to anyone (Local Government, State Government or private sector users). This member also considers that this disclosure is only useful if there is a day-one write-down due to applying arbitrary discounts, but does not consider ongoing disclosure of historical cost information for all other existing land holdings is relevant. • **(P):** Two Panel members commented that, 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. Neither of them could see the usefulness of disclosing the historical cost of those land holdings, nor the merits of summing historical costs from scores of years ago and fair values at the time of transfers between entities under common control.	• **(TP):** Disclosure of historical cost by reporting period is generally no longer useful or relevant. However, the historical cost of restricted land could be disclosed in the notes. Disclosure of historical cost for other types of assets is not useful or relevant, and creates unnecessary administrative burden. • **(TP):** Staff of a taxpayers' representative body commented that it would be useful to disclose the acquisition cost only in the period in which an adjustment is first deducted to reflect a public-sector-specific restricted use imposed on the land since it was acquired. They noted that they do not necessarily focus on historical costs of other types of property, plant and equipment.

• **(P):** One Panel member commented that the proposed disclosures about cost might be useful to local government users as a discharge of accountability where 'day-one' write-downs for acquisitions of land occur. For example, it might be useful to show ratepayers how much was spent on acquiring residential or rural land and because of the restrictions imposed to turn it into a cemetery/park/public open space it is now held at a significantly lower value. However, it would be of little benefit to show these amounts for the thousands of school sites reported in a State Government's financial statements. • **(P):** Another Panel member supported disclosure of the historical cost of restricted land if the land was subject to a material deduction during the current period and arose from the land's first revaluation or impairment.	

Appendix – Staff's working draft amendments to AASB 13

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A1. This Appendix outlines staff's tentative working draft amendments to AASB 13 to reflect the Board's tentative decisions in respect of the proposed disclosures explained in paragraphs 3–5 of the staff paper.

A2. Staff have proposed some amendments to paragraph Aus93.1 and have drafted paragraphs Aus93.2 and Aus93.3, as indicated in underlined text. Staff have not proposed amendments to paragraphs 91–93 and 94. These paragraphs have been included for ease of reference.

A3. Staff's working draft Implementation Guidance (see paragraphs F27–F32) and Basis for Conclusions (paragraphs BC1–BC16) regarding the tentative proposed disclosure requirements outlined in the draft paragraph Aus93.2 are also included to assist members in perusing the draft principles regarding proposed disclosures about restricted land held primarily for its service capacity.

Amendments to AASB 13

…

Disclosure

91 **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.**

(b) **for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.**

…

93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Standard) in the statement of financial position after initial recognition:

…

(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

…

(g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).

(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).

…

(i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

Aus93.1 Notwithstanding paragraph 93, but subject to paragraphs Aus93.2 – Aus93.3, in respect of not-for-profit public sector entities, for assets within the scope of AASB 116 *Property, Plant and Equipment* for which the future economic benefits are not primarily dependent on the asset's ability to generate net cash inflows, the following requirements do not apply:

(a) in paragraph 93(d), the text "For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.";

(b) paragraph 93(f); and

(c) paragraph 93(h)(i).

Aus93.2 In relation to each class of land (or land and other assets) within the scope of AASB 116 *Property, Plant and Equipment* and measured at fair value, not-for-profit public sector entities shall disclose the following information if the land is held primarily for its service capacity and any portion of that separately disclosed balance includes a deducted adjustment to the current market buying price of equivalent unrestricted land because the land is restricted for a public-sector-specific purpose:

(a) the total carrying amount of the class;

(b) the adjustment deducted (implicitly or explicitly) from the current market buying price of equivalent unrestricted land to reflect the restricted public-sector-specific purpose for holding the land; 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).

Aus93.3 The requirements of paragraph Aus93.2 do not apply to a parcel of land of a not-for-profit public sector entity held primarily for its service capacity if it is measured at fair value and the fair value estimate is based on the value of equivalent restricted land obtainable in the marketplace for a price supported by observable market evidence.

94 An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

(a) the nature, characteristics and risks of the asset or liability; and

(b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another Standard specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this Standard if that class meets the requirements in this paragraph.

Australian implementation guidance for not-for-profit entities [Working Draft]: Disclosures about adjustments deducted from the current market buying price of equivalent unrestricted land in fair value measurements of land restricted for a public-sector-specific purpose

F27 In relation to each class of land (or land and other assets) within the scope of AASB 116 *Property, Plant and Equipment* and measured at fair value, paragraph Aus93.2 requires not-for-profit public sector entities to disclose the following information if the land is held primarily for its service capacity and any portion of that separately disclosed balance includes a deducted adjustment to the current market buying price of equivalent unrestricted land because the land is restricted for a public-sector-specific purpose:

(a) the total carrying amount of the class;

(b) the adjustment deducted (implicitly or explicitly) from the current market buying price of equivalent unrestricted land to reflect the restricted public-sector-specific purpose for holding the land; 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).

F28 The requirements of paragraph Aus93.2:

(a) remove the disclosure exemption in paragraph Aus93.1(a) only in respect of land restricted for a public-sector-specific purpose and including a deducted adjustment to the current market buying price of equivalent unrestricted land; and

(b) apply in addition to the requirements in paragraph 93(d) to describe the valuation technique(s) and inputs used in the fair value measurement. Meeting those requirements in paragraph 93(d) would include disclosing whether the market approach, income approach or cost approach was used to measure the fair value of the land. If either the market approach or cost approach is used to measure the fair value of restricted land, the entity also discloses the following in accordance with paragraph 93(d):

(i) whether the equivalent unrestricted land used to develop each fair value estimate is in the same area as the parcel of land being valued;

(ii) the fact that an adjustment has been deducted for the risk that the restriction affecting the parcel of land being valued (but not the equivalent unrestricted land) will not be able to be removed, if that valuation technique has been used; and

(iii) if the fair value estimate includes adjustments for the cost to adapt the property to a higher and better use, the time value of the estimated period until the restriction is removed, and legal and other costs of the process of removing the restriction, the nature of those inputs to the fair value estimate.

F29 For the purposes of applying paragraphs Aus93.2 and F27:

(a) a restriction of an asset for a public-sector-specific purpose includes a restriction over the asset's use and a restriction over the prices that may be charged for using the asset;

(b) equivalent unrestricted land is a reference parcel of land that is:

(i) in the same proximity as the parcel of land being valued;

(ii) capable of providing the same services (or utility) as the parcel of land being measured (although not necessarily of the same dimensions: if the other parcel of land has different dimensions to the parcel of land being measured, market comparison techniques are used to adjust for the difference between the capacity of the parcel of land being measured and the capacity of the other parcel of land); and

(iii) not restricted for the public-sector-specific purpose for holding the parcel of land being valued. However, equivalent unrestricted land might be restricted in use by zoning otherwise than for a public-sector-specific purpose (eg it might be zoned for residential, commercial or light industrial use) or by an easement providing access to other services;

(c) the current market buying price of equivalent unrestricted land is calculated after deducting from the current market buying price of the reference parcel of land referred to in (b) an adjustment for the effects of any adverse physical characteristics that:

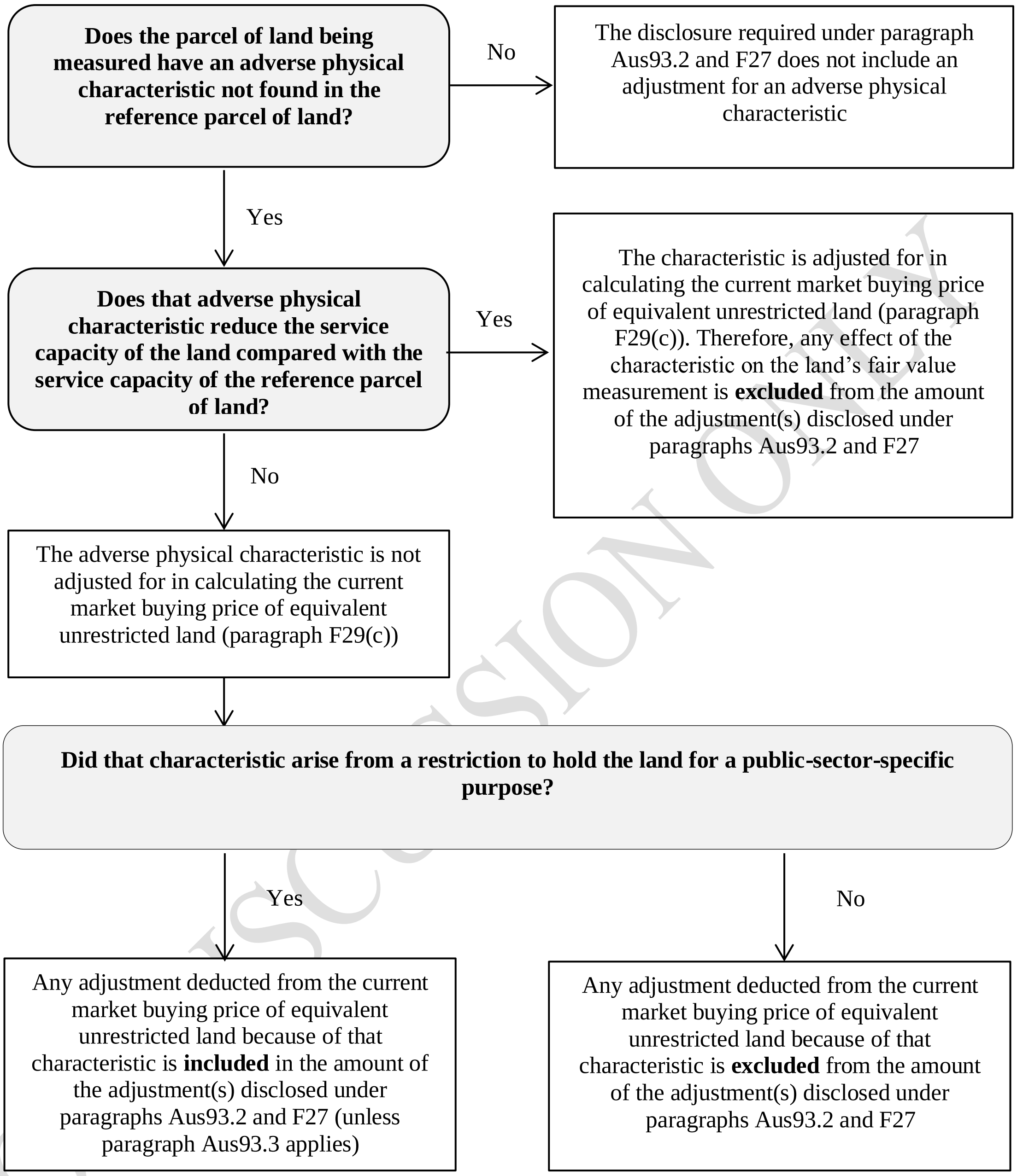
(i) are specific to the entity's parcel of land; and

(ii) reduce the service capacity of the entity's parcel of land;

and

(d) where adverse physical characteristics specific to the entity's parcel of land do not reduce the service capacity of the entity's parcel of land, the adjustment disclosed includes any amounts deducted from the current market buying price of equivalent unrestricted land to reflect those characteristics if they arise from restrictions to hold the land for a public-sector-specific purpose.

F30 The flowchart below summarises the requirements of paragraphs F29(c) and (d) in determining whether an adjustment for the effects of any adverse physical characteristics of land is required to be included in the amount of the adjustment(s) disclosed under paragraphs Aus93.2 and F27.



F31 Quantitative information about the significant unobservable inputs used in the fair value measurement and giving rise to the adjustment deducted from the current market buying price of equivalent unrestricted land, required by paragraphs Aus93.2(c) and F27(c), includes the amount of the adjustment attributable to the unobservable input and the range of the percentages of the adjustment compared with the current market buying price of the equivalent unrestricted land. For example, if an adjustment deducted for the risk that the restriction affecting the parcel of land being valued will not be able to be removed is a significant unobservable input, the amount of that risk adjustment is disclosed in terms of amount and the percentage of the current market buying price of equivalent unrestricted land that it represents.

F32 Paragraph Aus93.3 excludes a parcel of land from the disclosure requirements of paragraph Aus93.2 if the fair value estimate is based on the value of equivalent restricted land obtainable in the marketplace for a price supported by observable market evidence. An example is where a not-for-profit public sector entity measures the fair value of a parcel of land restricted for use as a school by reference to the price of a parcel of land at an adjacent or nearby site that is also restricted for use as a school and available for purchase for a price supported by observable market evidence. In such a case, the fair value of the parcel of land does not embody an adjustment to its current market buying price because replacing the parcel of land would not require the entity to acquire land that is 'unrestricted' (ie not restricted for a public-sector-specific purpose).

Working draft Basis for Conclusions: Specific aspects of the proposed disclosures about restricted assets primarily held for their service capacity

Classes of assets including land measured at fair value

BC1 The proposed disclosures about the total carrying amount of land measured at fair value (or land and other assets, eg land and buildings) and the adjustment deducted from the current market buying price of equivalent unrestricted land in arriving at that fair value carrying amount would be required for each class of land (or land and other assets) determined in accordance with either paragraph 37 of AASB 116 *Property, Plant and Equipment* or paragraph 94 of AASB 13. The disclosure of information about those adjustments at a class-of-assets level reflects the principle that the rationale for disclosures of adjustments to the current market buying price of restricted land applies to whichever level of disaggregations of carrying amounts of land are presented in the financial statements. This is because the objective of the disclosure is to enable users of financial statements to gauge the relationship between the fair values disclosed for restricted land (or a class of assets including restricted land) and a current measure of the land's service potential. The proposed disclosures apply when information about them is material.

BC2 This Exposure Draft does not propose specifying how classes of assets that include land measured at fair value should be determined; nor does it propose disaggregating further classes of assets in relation to adjustments deducted. To disclose meaningful information about the range of percentage adjustments to the current market buying price of land, an entity might choose to disaggregate further some classes of assets including restricted land; however, this would not be required by the proposed amendments. The Board considered proposing to require land to be separated from any other assets presented within a single class of assets, to provide further insight into the percentage adjustments made for restrictions over land. The Board rejected that idea because:

(a) the primary focus of the disclosures is to enable users of financial statements to identify the amount by which the carrying amounts of land reflect an adjustment to the current market buying price of equivalent unrestricted land; and

(b) any changes to requirements for identifying separate classes of assets, albeit for a limited-purpose objective, would be beyond the purpose of the proposed amendments.

Meaning of 'restrictions'

BC3 The proposed disclosure requirements apply to land restricted for a public-sector-specific purpose, without stipulating that the restrictions concerned must only be restrictions referred to in paragraph 28(b) of AASB 13 (which are "legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property)"). This is because:

(a) the purpose of the proposed disclosure requirements is to provide information about adjustments made to the current market buying price of equivalent unrestricted land because of 'restrictions', regardless of how reporting entities concluded that particular parcels of land are 'restricted'. Some commentators have argued that public-sector-specific restrictions affect the price that market participant buyers would bid for a restricted asset, regardless of whether those restrictions are legally binding; and

(b) from consultations with stakeholders during earlier stages of this Project, it has become apparent that views can differ widely regarding whether a particular restriction would be taken into account by market participants when pricing the restricted asset. Stipulating that the 'restrictions' to which the proposed disclosure applies must be those referred to in paragraph 28(b) of AASB 13 would give rise to the potential for confusion in determining the scope of the disclosure.

Equivalent 'unrestricted' land and restrictions for a 'public-sector-specific purpose'

BC4 The reference measure for the proposed disclosure requirements is the current market buying price of equivalent unrestricted land, which the Board concluded represents most faithfully the current service capacity of the restricted land. However, it would seldom, if ever, be the case that the reference land for a parcel of restricted land would itself be entirely unrestricted. This is because land would be subject to zoning requirements. In addition, reference land might be subject to easements providing rights of access for the purpose of repairing utilities such as stormwater pipes. Neither of those types of restrictions reduce fair value measurements below the current value of the service capacity embodied in a parcel of land, because they also affect the current market buying price of that land. The proposed disclosure requirements focus on the effect of public-sector-specific restrictions on the fair value measurement, which can cause a difference between fair value measurements of a parcel of land and its current market buying price.

Amounts deducted for physical characteristics that are specific to the parcel of land being valued

BC5 The adjustment covered by the proposed disclosure requirements in paragraphs Aus93.2 and F27 includes any amounts deducted from the current market buying price of equivalent unrestricted land to reflect adverse physical characteristics specific to the parcel of land being valued (eg some instances of contamination, being flood-prone or having restricted access) only if those deductions arise from restrictions to hold the land for a public-sector-specific purpose.

BC6 If a parcel of land is contaminated or flood-prone, or has restricted access, and the reference parcel of land considered by the valuer does not have those physical characteristics, such an adverse physical characteristic might reduce the current market buying price of equivalent unrestricted land (compared with the current market buying price of the reference parcel of land). This would occur if the adverse physical characteristic reduces the service capacity of the entity's parcel of land, because *equivalent* unrestricted land is capable of providing the same services (or utility) as the parcel of land being measured (see paragraph F29(b)(ii)). Whether an adverse physical characteristic reduces the service capacity of the entity's parcel of land depends on the entity's circumstances. For example, unexploded ordnance on a defined area of land held for defence training purposes would be likely to reduce the service potential of that defined area of land because it is unsafe to enter that area. In contrast, contamination of a parcel of land might not reduce the service capacity of that parcel if, for example, the land is used as a buffer zone around a research facility producing radioactive isotopes. Where an adverse physical characteristic reduces the current market buying price of equivalent unrestricted land (compared with the current market buying price of the reference parcel of land), it is already deducted in calculating the reference value for determining the amount to be disclosed under paragraphs Aus93.2(b) and F27(b)—therefore, it is not disclosed under those paragraphs.

BC7 If an adverse physical characteristic specific to the parcel of land being valued does not reduce the service capacity of that parcel of land, it does not affect the current market buying price of equivalent unrestricted land. Depending on how the entity measures the fair value of that parcel of land, a deduction might be made from the current market buying price of equivalent unrestricted land for the adverse physical characteristic in estimating the fair value of that parcel. If such a deduction is made, it would be disclosed under paragraphs Aus93.2 and F27 if (and only if) the adverse physical characteristic arose from the parcel of land being restricted for a public-sector-specific purpose. The objective of the proposed disclosures does not encompass showing the amounts of all inputs to a fair value estimate; it is limited to the effects of restrictions for a public-sector-specific purpose.

BC8 The considerations explained in paragraphs BC5 – BC7 are summarised in the table below.

<table>
<tr><th>Entity’s parcel of land has an adverse physical characteristic and …</th><th>That characteristic reduces the service capacity of the land compared with the service capacity of the reference parcel of land</th><th>That characteristic does not reduce the service capacity of the land compared with the service capacity of the reference parcel of land</th></tr>
<tr><td>That characteristic arose from a restriction to hold the land for a public-sector-specific purpose</td><td rowspan="2">The adverse physical characteristic is adjusted for in calculating the current market buying price of equivalent unrestricted land, in accordance with paragraph F29(c). Therefore, the effect (if any) of the adverse physical characteristic on the land’s fair value measurement is excluded from the amount of the adjustment(s) disclosed under paragraphs Aus93.2 and F27.</td><td>The adverse physical characteristic is excluded from the calculation of the current market buying price of equivalent unrestricted land, in accordance with paragraph F29(c).

Depending on how the entity estimates the fair value of the parcel of land, the adverse physical characteristic might result in an adjustment deducted from the current market buying price of equivalent unrestricted land. If it does, the amount of that deducted adjustment would, in accordance with paragraph F29(d), be included in the amount of the adjustment(s) disclosed under paragraphs Aus93.2 and F27 (unless paragraph Aus93.3 applies).</td></tr>
<tr><td>That characteristic did not arise from a restriction to hold the land for a public-sector-specific purpose</td><td>The adverse physical characteristic is excluded from the calculation of the current market buying price of equivalent unrestricted land, in accordance with paragraph F29(c).

Depending on how the entity estimates the fair value of the parcel of land, the adverse physical characteristic might result in an adjustment deducted from the current market buying price of equivalent unrestricted land.

Nevertheless, even if the adverse physical characteristic results in a deducted adjustment, the amount of that adjustment would, in accordance with paragraph F29(d), be excluded from the amount of the adjustment(s) disclosed under paragraphs Aus93.2 and F27. This is because the adverse physical characteristic did not arise from a restriction to hold the land for a public-sector-specific purpose.</td></tr>
</table>

BC9 The Board seeks feedback from interested parties on whether, in respect of adverse physical characteristics reflected in fair value measurements of land, identifying whether:

(a) those characteristics reduce the service capacity of the land (compared with the current market buying price of the reference parcel of land); and

(b) those characteristics arose from restrictions to hold the land for a public-sector-specific purpose

would cause any significant implementation challenges (such as significant additional cost and effort).

Effect of valuation techniques used on the requirement to disclose the amount of the adjustment deducted from the current market buying price of equivalent unrestricted land

BC10 The proposed requirement in paragraph Aus93.2(b) to disclose the amount of the adjustment deducted from the current market buying price of equivalent unrestricted land for the effects of restrictions on land for a public-sector-specific purpose applies regardless of the valuation technique used to measure the fair value of that land. For example, two valuation techniques used in different valuations of the fair value of land restricted for a public-sector-specific purpose are the ‘explicit adjustment method’ and the ‘implicit adjustment method’, as described below:

(a) when measuring the fair value of restricted land using the ‘explicit adjustment method’, a valuer would start with a hypothetical assessment of the ‘underlying zoning’ of the land being valued (ie assessing what the zoning of the land would be if it were not zoned for a public-sector-specific purpose) and then adjust the measurement based on that hypothetical assessment to reflect the effect of the restriction for the public-sector-specific purpose; and

(b) when measuring the fair value of restricted land using the ‘implicit adjustment method’, a valuer would base the valuation on comparison with ‘reference land’ that is usually a parcel of land with a low-level utility in a different location (eg when the parcel of land being valued is in an urban area but is severely restricted in its use, the ‘reference land’ might be grazing land on the urban fringe of the metropolitan area with no foreseeable development or redevelopment potential at the measurement date). In this case, the adjustment to the current market buying price of equivalent unrestricted land to reflect the restriction for a public-sector-specific purpose would be implicit in the market value of the reference land.

Regardless of whether the ‘explicit adjustment method’ or ‘implicit adjustment method’ is used, the amount of the adjustment deducted from the current market buying price of equivalent unrestricted land would need to be disclosed in accordance with paragraph Aus93.2(b).

BC11 In reaching its conclusion in paragraph BC10, the Board weighed up the benefits of requiring the disclosure to be made even when the ‘implicit adjustment method’ is used with the cost and effort of disclosing amounts that are not an explicit component of valuations. The Board observed that requiring the disclosure proposed in paragraph Aus93.2(b) regardless of the valuation method used would achieve greater consistency in the disclosure of the adjustments made (and, thus neutrality between the incidence of disclosure requirements for different public sector not-for-profit entities) and, consequently, would provide a more comprehensive overview of the extent of those adjustments made by public sector not-for-profit entities. The Board has been advised by some stakeholders that the information required for the disclosure in paragraph Aus93.2(b) should normally be readily available at a reasonable cost, even if it is not formally part of the valuation process. In addition, the Board has been advised that, under the ‘implicit adjustment method’, valuers would typically have regard to the current market buying price of equivalent unrestricted land as an informal cross-check on the fair value estimate made. Therefore, the Board decided to propose that the disclosure in paragraph Aus93.2(b) is required regardless of which valuation technique is used.

BC12 The Board seeks feedback from interested parties on the costs and benefits of disclosing the adjustment deducted from the current market buying price of equivalent unrestricted land when the adjustment is implicit in the valuation technique applied.

Exclusion from the disclosure requirements in respect of land that is restricted for a public-sector-specific purpose and obtainable with the restriction

BC13 Paragraph F32 of the Exposure Draft states that a parcel of land restricted for a public-sector-specific purpose is excluded from the disclosure requirements of paragraph Aus93.2 if its fair value estimate is based on the value of equivalent restricted land obtainable in the marketplace for a price supported by observable market evidence. An example is where a not-for-profit public sector entity measures the fair value of a parcel of land restricted for use as a school by reference to the price of a parcel of land at an adjacent or nearby site that is also restricted for use as a school and available for purchase for a price supported by observable market evidence. In such a case, the fair value of the parcel of land does not embody an adjustment to its current market buying price because replacing the parcel of land would not require the entity to acquire land that is ‘unrestricted’ (ie not restricted for a public-sector-specific purpose). Therefore, it would be inconsistent with the objective of the disclosure in paragraph Aus93.2 to use unrestricted land as the reference point for showing differences between the fair value measurement of parcels of land and the current value of their service capacity.

Additional disclosures related to disclosure of adjustments deducted from the current market buying price of equivalent unrestricted land

BC14 The existing disclosure requirements in paragraph 93(d) applicable to public sector not-for-profit entities include requirements to describe the valuation technique(s) and inputs used in the fair value measurement.

This would include disclosing whether the market approach, income approach or cost approach was used to measure the fair value of the land. The Board considered whether to require additional disclosures to those currently required by paragraph 93(d) and those proposed to be required by paragraph Aus93.2(a) and (b) (ie disclosures about adjustments deducted from the current market buying prices of equivalent unrestricted land in respect of restrictions for a public-sector-specific purpose).

BC15 The Board considered whether it would be useful to users if financial statements were to disclose all material components of, or assumptions made in the calculation of, the adjustments disclosed in accordance with paragraph Aus93.2(b) (eg a material cost to remove improvements on land in order to achieve a higher and better use than the land's existing use). The Board observed that requiring quantitative disclosure of all significant inputs to, and assumptions made in the calculation of, fair values would seem to have an objective of helping users to develop their own estimates of fair value. Such an objective would go beyond the disclosure objective in paragraph 91 of AASB 13 (which refers to helping users of financial statements to *assess* the valuation techniques and inputs used—which is more related to helping users assess the quality and robustness of the fair value estimates). The Board observed that the IASB's Basis for Conclusions on IFRS 13 states the following in respect of disclosing quantitative information about unobservable inputs used in a fair value measurement (see paragraph BC16), but the points are applicable more generally to the objective of disclosures about fair value measurements:

> "(for) a measurement categorised within Level 3 of the fair value hierarchy … disclosures about such information help users to understand the measurement uncertainty inherent in the fair value measurement. … the objective of the disclosure is not to enable users of financial statements to replicate the entity's pricing models, but to provide enough information for users to assess whether the entity's views about individual inputs differed from their own and, if so, to decide how to incorporate the entity's fair value measurement in their decisions. …" (paragraphs BC190 – BC192)

BC16 Accordingly, the Board limited its consideration of the additional disclosures to quantitative information about unobservable inputs used in a fair value measurement. Such information is required of for-profit entities and private sector not-for-profit entities, but is excluded from the scope of the disclosure requirements for public sector not-for-profit entities by paragraph Aus93.1 of the Standard. The Board decided to propose reversing this scope exclusion in paragraph Aus93.1, but only in respect of land restricted for use for a public-sector-specific purpose—in particular, in respect of the adjustments deducted from the current market buying price of equivalent unrestricted land. The Board considers that two key reasons why it provided a scope exclusion for public sector not-for-profit entities in relation to quantitative information about unobservable inputs used in a fair value measurement (namely, cost-benefit and impracticality) do not apply to land restricted for use for a public-sector-specific purpose. This is because of the importance of information about adjustments to current measures of service capacity (which are pervasive in the public sector) and because initial stakeholder consultations have indicated that valuers incorporate quantitative information about unobservable inputs (eg the risk that the public-sector-specific restriction will not be lifted) in their fair value estimation process. The Board seeks feedback from interested parties on whether they agree with this reasoning.