



Australian Government
Australian Accounting Standards Board

Agenda Item 8.1: Fair Value Measurement for Not-for- Profit Entities

AASB Meeting
30 April 2020

Objective of this agenda item

Board to tentatively approve*, as an **interim step**, encouraging the following **disclosures** for **restrictions on land** of NFP public sector entities held primarily for its service capacity:

1. total carrying amount of land measured at a discounted value**;
2. total amount of the discount; and
3. disclose (1) and (2) by class of land.

*subject to staff's outreach

**compared with the current market buying price of equivalent unrestricted land



Outline of this agenda item

1. Background
2. Problem with the current disclosures about restricted land
3. Reasons why disclosures about discounts on restricted land are needed
4. Question 1 for the Board
5. Encouraging vs requiring disclosures about discounts on restricted land
6. Question 2 for the Board



Background



- **Significant opposition** to the Board's key proposal to prohibit deducting a discount from the current market buying price of equivalent unrestricted land when measuring the fair value of **restricted land of NFP entities**
- Likely to take considerable time to:
 - conduct outreach on which measurement principle best meets users' needs ⇒ possible implications for venturing outside FV
 - consider pursuing as a joint project with NZASB
- Staff recommend an interim step to keep advancing the project
 - Encouraging disclosures about **discounts** deducted for restrictions on land
- Staff will discuss options to progress the **measurement issue** about restricted land at the June Board meeting



Problem with the current disclosures about restricted land



AASB 13 disclosure requirements for NFP public sector entities – Level 3 fair value measurements (FVMs)

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Objective of disclosures [AASB 13.91(a)]

- Help users assess valuation techniques & **inputs** used

Specific disclosures for Level 3 FVMs [AASB 13.93(d)]

- **Quantitative information** about **unobservable inputs** significant to the FVM
- If unobservable inputs are **reasonably available** to the entity



But AASB 13.Aus93.1 NFP public sector entities exemption for items of property, plant and equipment held primarily for their service capacity



- AASB 101.122: management's judgements with the most significant effect on amounts recognised
 - But does not apply to judgements involving estimations
- AASB 101.125: major sources of estimation uncertainty with significant risk of material adjustment within the **next financial year**
 - Seems unlikely to capture all discounts for restrictions
 - Not written with public sector in mind—discounts for restrictions “fall through the gap in paras 122 & 125”
- **Staff view:** AASB 101 morally, but does not literally, require universal disclosure of discounts



Examples of current disclosures - valuation techniques & inputs for restricted land

A NSW Department

Land under specialised building(s) [L3]

- Market approach
- “This valuation method involves comparing the subject property to **comparable sale prices** in similar location on a rate per square metre basis, **adjusted for restrictions** specific for the property (e.g. mandated use and/or zoning).”

A VIC Department

Specialised land [L3]

- Market approach, **adjusted for the community service obligation (CSO)** to reflect the specialised nature of the land being valued
- “The CSO adjustment is a reflection of the valuer’s assessment of the **impact of restrictions** associated with an asset to the extent that is also equally applicable to market participants”

A WA Department

Restricted use land [L3]

- Market approach
- “Fair value for restricted use land is determined by **comparison with market evidence** for land with similar approximate utility (high restricted use land) or **market value of comparable unrestricted land** (low restricted use land)”
- “Relevant comparators of land with low level utility are **selected by Valuation Services**”

Examples of current disclosures - valuation techniques & inputs for restricted land

A NSW Department

Land under specialised building(s) [L3]

- Market approach
- “This valuation method involves comparing the subject property to comparable sale prices in similar location on a rate square metre basis adjusted for restrictions specific to the property (e.g. mandated use and zoning).”

A VIC Department

Specialised land [L3]

- Market approach,

A WA Department

Restricted use land [L3]

- Market approach

Staff's view:

Current disclosures about restricted land seem **insufficient** for users to assess valuation techniques & **inputs** used (i.e. not meeting objective of FVM disclosure)

- Total discount for restrictions is not disclosed

equally applicable to market participants”

comparators of land with low level utility are selected by Valuation Services”

2014/2015 – temporary measure

- Received feedback from public sector constituents about concerns with applying AASB 13 measurement principles and disclosure requirements
- Due to **cost-benefit and impracticality reasons**, the Board decided to provide disclosure relief as a temporary measure, while it considers the broader public sector fair value measurement issues in this project
 - *However, Board was unaware of the extent (amounts) and nature of discounts being deducted for land*

The Board intended to revisit this relief in future

- The Board stated it intends to revisit the disclosure relief, based on the extent to which the outcomes of related projects [review of the RDR (Tier 2), Australian Reporting Framework, and Conceptual Framework] address the Board's reasons for granting this relief
- Board said IPSASB's future decisions on measurement may prompt revisiting its decisions on the costs vs benefits of disclosure relief



Example of Level 3 FVM disclosure prior to public sector NFP entity exemption

Level 3 disclosures:

The fair value of buildings computed by suitably qualified independent valuers using a methodology known as the depreciated replacement cost valuation technique. The following table highlights the key unobservable (Level 3) inputs assessed during the valuation process, the relationship to the estimated fair value and the sensitivity to changes in unobservable inputs.

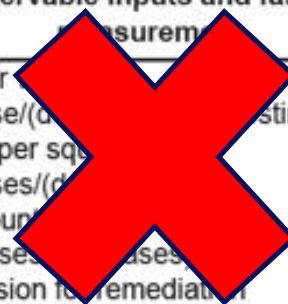
Assets	Valuation Technique	Significant Unobservable Inputs	Relationship between unobservable inputs and fair value measurement
Land under specialised building(s)	Market approach: this valuation method involves comparing the subject property to comparable sale prices in similar location on a rate per square metre basis, adjusted for restrictions specific for the property (e.g. mandated use and/or zoning)	<ul style="list-style-type: none">▪ Rate per square metre▪ Discount rate▪ Provision for remediation	The fair value will increase/(decrease) if the estimated: <ul style="list-style-type: none">▪ Rate per square metre increases/(decreases)▪ Discount rate decreases/(increases)▪ Provision for remediation decreases/(increases)

Extracted from the 2015 financial statements of a NSW Department



Staff's preliminary suggested disclosures

Assets	Valuation Technique	Significant Unobservable Inputs	Relationship between unobservable inputs and fair value measurement
Land under specialised building(s)	Market approach: this valuation method involves comparing the subject property to comparable sale prices in similar location on a rate per square metre basis, adjusted for restrictions specific for the property (e.g. mandated use and/or zoning)	<ul style="list-style-type: none"> • Rate per square metre • Discount rate • Provision for remediation 	The fair value is estimated: <ul style="list-style-type: none"> • Rate per square metre increases/(decreases) • Discount rate increases/(decreases) • Provision for remediation decreases/(increases)



1. Disclose the total carrying amount of land measured at a discounted value
2. Disclose the total amount of the discount
3. Disclose (1) and (2) by class of land

Staff consider that it would be useful if the key assumptions used to calculate the discount are also disclosed (eg the probability % of the restriction being lifted & estimated cost to rezone, if those are factors in the methodology).

However, staff understand that the valuation reports might not have this information and that this level of disclosure might be more detailed than IFRS 13 requires of for-profit entities. Staff plan to investigate this issue further during the outreach.

Reasons why disclosures about discounts on restricted land are needed



Reasons why disclosures about discounts on restricted land are needed (1/2)

- Current FVM disclosures about discounts on restricted land seem insufficient
- **Board previously unaware** of inconsistency between treatment of land versus buildings/other improvements and the extent of discounts deducted for land when granting the disclosure exemption
- However, given the project's limited scope, it is unnecessary to revisit **all** the disclosure reliefs for Level 3 FVMs
- Staff recommend disclosures about **discounts** only in respect of **restricted land**, because research to date indicates land is generally the only asset type for which discounts are deducted (compared with the current market buying price of equivalent unrestricted land)

Reasons why disclosures about discounts on restricted land are needed (2/2)

- The 'cost-benefit' and 'impracticality' rationale for the exemption seems not to apply to these discounts on restricted land
 - Public sector entities seem to have information about discounts
 - Some valuers recommended their public sector clients disclose discounts deducted for restricted land
- The guidance issued by valuers implied that discounts on land might be significant. These disclosures would help the Board and users assess the **significance of discounts** to FVMs of restricted land
- Outreach about these disclosures would help understanding users' views on whether it is more important to them that discounts deducted are in the balance sheet or disclosed in notes
→ This would be useful for determining future steps of the project



Question 1 for the Board

Do Board members agree that the following **disclosures** for **restrictions on land** of NFP public sector entities held primarily for its service capacity should be made in financial statements?

1. total carrying amount of land measured at a discounted value*;
2. total amount of the discount; and
3. disclose (1) and (2) by class of land.

*compared with the current market buying price of equivalent unrestricted land



Encouraging vs requiring disclosures about discounts on restricted land



Encouraging vs requiring disclosures about discounts on restricted land

	Encouraging disclosures (e.g. by issuing FAQs)	Requiring disclosures
Consultation period	<ul style="list-style-type: none"> • Shorter consultation period • Commence consultation after April meeting and report back to Board at June 	<ul style="list-style-type: none"> • Takes longer to follow due process (requires issuing ED for comment)
Extent of disclosures	<ul style="list-style-type: none"> • Might not see many voluntary disclosures, which won't help users or the Board understand extent of the discount issue • Greater diversity of practice than if mandated 	<ul style="list-style-type: none"> • The required disclosures will be made and users and the Board will be able to assess the extent of the discount issue

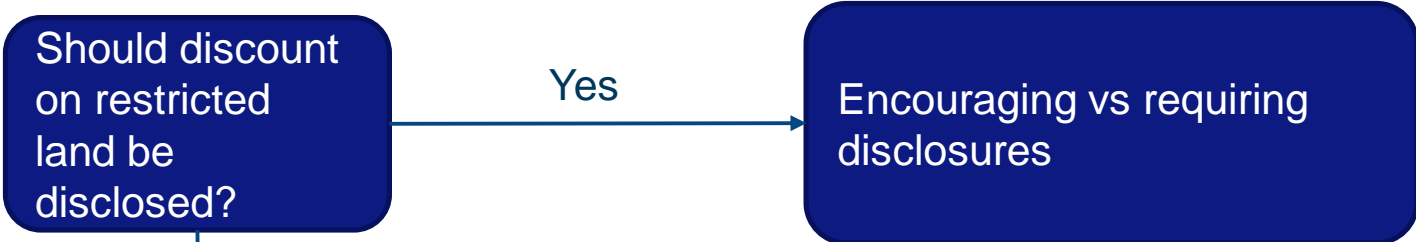
Other factor to consider if the Board tentatively decides to encourage disclosures:

The outreach before June Board meeting would explore whether NFP public sector entities would make the disclosures voluntarily. This information would help the Board decide whether it is likely to be necessary to propose mandating such disclosures.



Short-term options for FVM project

April



No

Encouraging

Requiring

June

Press ahead with ED without encouraging or requiring disclosures for discounts on land

Staff to conduct outreach to explore whether entities would make the disclosures voluntarily and report to Board at June meeting

Deliberate whether to issue an ED:
(a) Proposing disclosure **requirement** for discounts on land
OR
(b) Proposing disclosure **requirement** for discounts on land and covering the non-controversial measurement issues
OR
(c) Proposing disclosure **requirement** for discounts on land and covering all measurement issues

June meeting to also consider options to progress the **measurement issue** about restricted land.



If the Board tentatively approves encouraging disclosures about discounts on restricted land, staff would consult with the Project Advisory Panel, users and valuers regarding the **impact on current practice, entities and users** if such disclosures were made.

Examples of information that would be sought are:

- the extent to which such disclosures would entail a change in practice
- the availability of the quantitative information
- the cost to obtain such information
- the usefulness of the information to users of financial statements
- whether discounts are deducted for restrictions on assets other than land measured at Level 3 of the FV hierarchy.

Question 2 for the Board

Do Board members tentatively approve*, **as an interim step**, encouraging the recommended disclosures about discounts on restricted land in Question 1 on slide 17?

*subject to staff's outreach

