Australian Government
Australian Accounting Standards Board

Fair Value Measurement for Not-for-Profit Entities

Project summary

The objective of this project is to address issues and concerns raised by public sector constituents regarding the application of AASB 13 *Fair Value Measurement* by public sector entities.

This project also addresses issues raised by constituents in the not-for-profit sector (private and public sector) about the fair value of right-of-use assets arising from concessionary leases. Concessionary leases in this context are leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.

Project contacts

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Project priority: Medium

Issued consultation documents

- n/a

Project status

- Key issues and concerns identified
- Drafting guidance
- Conducting outreach

AASB outreach

- Informal targeted outreach conducted in 2016, 2019 and 2020
- AASB Fair Value Project Advisory Panel

Board deliberations

- AASB Action Alert Update and Board Papers

Latest project news

Date	News
16-17 September 2020	September 2020 Action Alert
11 June 2020	June 2020 Action Alert
30 April 2020	April 2020 Action Alert
5-6 March 2020	March 2020 Action Alert
21 November 2019	November 2019 Action Alert
14 June 2019	June 2019 Action Alert
30 April 2019	April 2019 Action Alert

Last updated: **6 October 2020**

AASB *Action Alert* Update, Minutes and Board Papers	
Meeting Date	**Update**
September 2020	The Board considered stakeholders' feedback on the tentative proposals for additional disclosures by not-for-profit public sector entities in relation to restricted land held primarily for its service capacity. The Board asked staff to present possible options to progress the fair value measurement considerations in respect of such restricted land at its next meeting, including consideration of: • developing staff FAQs to provide guidance for not-for-profit public sector entities in disclosing qualitative information about the methodologies used in measuring such land at fair value; and • prospectively requiring disclosure of the acquisition cost, and the adjustment deducted from cost, for a parcel of land that was acquired during the reporting period where the adjustment to reflect its restricted public-sector-specific use is material. The Board also asked staff to continue consulting with users of public sector entities' financial statements regarding the current value measurement perspective most useful to them to further inform the Board's deliberations. 7.1 Staff paper: Stakeholders' feedback on proposed disclosures about adjustments on restricted land 7.2 Staff paper: Paper for Project Advisory Panel meeting held on 14 August 2020, annotated with summary of feedback received from stakeholders
June 2020	The Board tentatively decided to clarify the limited-scope proposals for additional disclosures by public sector not-for-profit entities in relation to restricted land held primarily for its service capacity: • the proposed disclosure of the amounts of any material adjustments deducted from the current market buying price of equivalent unrestricted land reflecting restrictions imposed on the use of the land for the public-sector-specific purpose of holding the land; • the 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; and • 'equivalent unrestricted land' is a parcel of land that is in the same proximity as the land being measured; capable of providing the same services (or utility) as the parcel of land being measured; and not restricted for the public-sector-specific purpose as that applying to the parcel of land being measured. The Board noted feedback received from stakeholders during staff's initial outreach activities on the proposals, including issues raised regarding the scope and nature of the proposed disclosures. The Board asked staff to consult further with stakeholders about: • the trade-off between information relevance and possible disclosure overload from providing the proposed disclosures at either a class-of-asset level or the level of

Meeting Date	Update
	subclasses of land for which different valuation techniques are used or different rezoning probability adjustments are made; • quantitative information about the significant unobservable inputs used in the fair value measurement resulting in a deduction from the current market buying price of equivalent unrestricted land; and • disclosing the cost, and the adjustment deducted from cost, of a parcel of land that was acquired during the reporting period and incurred a material adjustment to reflect a restricted public-sector-specific purpose imposed on its use. 7.1 Staff paper: Disclosures about discounts on restricted land 7.2 Staff's proposed draft amendments to AASB 13 – proposed disclosures about discounts on restricted land
April 2020	The Board decided, as an interim step, while it continues deliberation about the fair value measurement of restricted assets and right-of-use assets arising under concessionary leases, to issue a limited-scope Exposure Draft for application by public sector not-for-profit entities. The Exposure Draft would propose the following amendments (including additional guidance) to AASB 13 *Fair Value Measurement* in respect of assets held primarily for their service capacity: (a) in respect of land subject to restrictions, add a requirement to disclose the amounts of any material discounts deducted from the current market buying price of equivalent unrestricted land, including the basis for such discounts; and (b) additional guidance in respect of assets measured at current replacement cost, such as: • 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. The Board asked staff to consult with public sector stakeholders regarding the proposed disclosures about discounts on restricted land and prepare a draft Exposure Draft for the Board's deliberation at a future meeting. 8.1 Presentation slides: Encouraging disclosures about discounts on restricted land as an interim step
March 2020	The Board noted information obtained during staff's consultations with stakeholders since its November 2019 meeting and asked staff to consult further with stakeholders to understand: • the methodologies currently applied in measuring the fair value of restricted land and buildings and how those methodologies relate to the concept of 'service potential' adopted in the AASB *Conceptual Framework*, AASB 136 *Impairment of Assets* and AASB 1059 *Service Concession Arrangements: Grantors*; • when measuring the fair value of restricted land, what the discount to the current market buying price of equivalent (e.g. adjoining) land is intended to represent, and why the same discount is not applied to the current market buying price of any restricted buildings and other improvements on that land; • users' needs in respect of how fair value is measured in the financial statements of public sector not-for-profit entities and the extent of change and associated cost

AASB *Action Alert* Update, Minutes and Board Papers	
Meeting Date	**Update**

that would be involved in implementing the Board's current tentative proposals; and

- the methodologies applied in measuring the current value of restricted assets by public sector entities in other jurisdictions (e.g. in New Zealand and the United Kingdom), and their differences from the methodologies currently applied in Australia.

The Board also considered a revised draft approach for measuring the fair value of right-of-use assets arising under concessionary leases, which was developed in light of stakeholders' feedback on an initial draft approach. The Board tentatively agreed with the revised draft approach and instructed staff to obtain feedback from the Project Advisory Panel, valuers and other stakeholders on the revised draft approach and report back at a future meeting for Board deliberation.

11.1 Staff paper: Right-of-use assets under concessionary leases and draft ED

11.2 Working draft of Exposure Draft *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Entities Held Primarily for their Service Capacity*

November 2019

The Board decided to include the following proposals in the Exposure Draft that will propose amendments to AASB 13 *Fair Value Measurement* for not-for-profit entities:

(c) extend the scope of the ED to include not-for-profit private sector entities;
(d) consistent with the Conceptual Framework, assets should be measured at a value faithfully representing their service potential;
(e) the fair value of a restricted, non-financial asset that is held for its service potential, in the absence of observable market evidence, should be measured as its current replacement cost without a discount for the effect of the restriction(s). The Board noted that this deemed fair value might not be compliant with IFRS 13. Non-financial assets include right-of-use (ROU) assets under 'concessionary leases' (ie leases with significantly below-market terms and conditions principally to enable the entity to further its objectives);
(f) the concept of 'financially feasible' in paragraph 28(c) of AASB 13 should not apply when identifying the highest and best use of non-financial assets held for their service potential and measured at current replacement cost;
(g) a rebuttable presumption that the fair value of ROU assets under 'concessionary leases' can be measured reliably, based on the same fundamental principles for fair valuing owned assets;
(h) the current replacement cost of land forming part of a facility held for its service potential should be measured by assuming it is replaced in its present location, even if it would be feasible to relocate the facility to a site with cheaper land; and
(i) retrospective application, with the mandatory application date two years after issuing the amendments and permitting early application.

The Board also anticipates a specific matter for comment regarding the benefits and costs of requiring different fair value measurements of the same asset at different levels of the group in some circumstances. The Board will consider a revised draft Exposure Draft at its next meeting.

6.1 Cover memo: Draft ED

6.2 Working draft of Exposure Draft *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Entities Held for their Service Capacity* (marked up for changes since the June 2019 meeting draft)

June 2019

In relation to its working draft of an Exposure Draft proposing modification and guidance to AASB 13 *Fair Value Measurement* for application by public sector not-for-profit entities, the Board tentatively decided to include the following proposals and explanations:

(a) an illustrative example demonstrating that the current replacement cost of the assets composing a facility (eg a road and land under the road, whether reported jointly or separately) includes all necessary costs intrinsically linked to acquiring those assets at the measurement date, because a market participant buyer of the entity's facility would need to incur those costs when it acquires the facility (whether the market participant buyer acquires the facility from the entity or constructs the facility itself). Each asset's current replacement cost is calculated on the assumption that the asset:
   i. does not presently exist; and
   ii. requires replacing in the asset's current environment, taking into account any make-good costs that must be incurred for surrounding facilities disturbed when the asset is replaced (eg drainage works disturbed when replacing a road). However, this assumption does not preclude reconfiguring an asset to a more optimal configuration upon replacement.

   Consequently, the current replacement cost of an asset (whether reported as part of facility or as a separate asset from the facility—for example, land under roads) would not exclude costs for land or permanent works because the asset is not expected to be replaced. Current replacement cost assumes hypothetical replacement of the asset being measured, and is not limited to costs of replacements actually expected to be incurred in the future;

(b) an illustrative example demonstrating that the current replacement cost of land forming part of a facility held for its service capacity and not primarily for its ability to generate net cash inflows (such as a public hospital or public school) would typically be measured by assuming it is replaced in its present location. However, in the following rare instances, the land's current replacement cost would be measured assuming its replacement in a cheaper alternative location, consistent with a facility's current replacement cost being measured using the optimal configuration of all resources composing that facility:
   i. management is aware and considering whether a facility's service potential can be replaced in a cheaper alternative location of its land component;
   ii. replacing the facility in that cheaper alternative location is feasible, ie both legally permissible and compatible with the entity's operational requirements for that facility (eg relocation could only be assumed if the facility would provide the necessary accessibility of services to beneficiaries);
   iii. the entity can identify the land's feasible alternative location within a reasonable range of estimates (ie there must not exist a number of feasible

alternative locations with significantly different market buying prices of the land); and

iv. the current replacement cost of the facility determined on the basis of that alternative location is not exceeded by the price a market participant buyer of the facility would be prepared to pay to remove the buildings and other improvements from the existing facility's site and then sell the property as a vacant site for an alternative use (if such a course of action is legally permissible).

The Board decided that the illustrative example should also demonstrate that, where land is a component of a facility, it is essential to use consistent assumptions about the highest and best use of each asset comprising that facility; and

(c) an explanation, in the Basis for Conclusions, that an entity's decision regarding whether to include borrowing costs in the current replacement cost of a self-constructed asset:
   i. does not depend on the accounting policy choice made by the entity (under paragraph Aus8.1 of AASB 123 Borrowing Costs) regarding whether to capitalise borrowing costs into the asset's cost on initial recognition; and
   ii. should consider whether a market participant buyer of the asset would include borrowing costs in its pricing decisions about the asset.

The Basis for Conclusions will also note the International Valuation Standards Committee's support for including borrowing costs in the fair value of property, plant and equipment.

The Board also redeliberated its tentative decision in April 2019 to propose that, for assets held for their service capacity and not primarily for their ability to generate net cash inflows, their fair value should be determined using the cost approach (ie at current replacement cost). These redeliberations took into account correspondence received from constituents on the Board's tentative decision. The Board did not make any decisions on this issue.

The Board will consider a revised draft Exposure Draft at its September 2019 meeting.

6.1 Cover memo: Working draft of Exposure Draft and items for discussion

6.2 Working draft of Exposure Draft *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-cash-generating Assets of Not-for-Profit Public Sector Entities*

April 2019

The Board decided to include the following proposals in an Exposure Draft, proposing modification and guidance to AASB 13 *Fair Value Measurement* for application by public sector not-for-profit entities:

(a) modify AASB 13 to state that for assets held for their service capacity and not primarily for their ability to generate net cash inflows, the approach to determine their fair value should be current replacement cost. The Board is of the view that when such assets are legally restricted as to their use or the prices that can be charged for goods or services derived from them, their fair values should not be written down to a market selling price or present value of net cash inflows that is less than their current replacement cost. When such assets can be bought and sold for prices incorporating the effect of the restriction, their current replacement cost would reflect the observable market selling price. This proposed modification is expected to reduce uncertainty and diversity in

Meeting Date	Update

practice regarding how to apply the principles in AASB 13 and would not necessarily change practice for some not-for-profit public sector entities;

(b) include an illustrative example to support the application of AASB 13 paragraph 28(b) regarding legally permissible uses of an asset. The illustrative example would demonstrate that, if a government can rescind a law or regulation restricting the use (or pricing of the use of) an asset and does not require parliamentary approval for that rescission, the fair value measurement of that asset should assume that the restriction would not pass to the market participant buyer. This is the case even if an entity controlled by that government (eg a government agency) is unable itself to rescind the restriction and therefore is required to assume in its own financial statements that the restriction would pass to the market participant buyer. However, the fair value measurement of that asset in the whole-of-government financial statements should be reduced for:
   i. the risk that the government is unable in practice to rescind the restriction because of, for example, community concerns about the asset's higher and better uses; and
   ii. the current cost (if any) of rescinding the restriction; and

(c) include an illustrative example to support the application of AASB 13 paragraphs B8 and B9 regarding the cost approach. The illustrative example would demonstrate that, when measuring an asset's fair value at its current replacement cost, economic obsolescence should not:
   i. be identified if the asset has apparent 'excess capacity' that is temporary or occurs cyclically, because such excess capacity is standby capacity forming part of the asset's service potential that is being measured; and
   ii. be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity.

The Board decided to include in the ED a specific matter for comment on whether the proposed guidance should also apply to not-for-profit entities in the private sector.

The Board will consider the remaining issues identified in the project plan at its June 2019 meeting, with a view to issuing the ED during the third quarter of 2019.

8.1 Staff Paper: Fair Value Measurement - Public Sector Update

AASB *Action Alert* Update, Minutes and Board Papers	
Meeting Date	**Update**
December 2017	The Board decided issues previously flagged by public sector entities when applying AASB 13 Fair Value Measurement to be addressed by the Fair Value Measurement Project will be: • restrictions on assets • “Highest and best use” concept • when to use the different valuation approaches • implementation guidance for current replacement cost and why in practice there is little or no • difference to depreciated replacement cost • obsolescence • disclosures • interaction of AASB 13 with other Standards • repurchased internally generated intangible assets. The Board approved the proposed project timeline, but noted that FAQ guidance on the accounting treatment of peppercorn leases should be expedited. Developments in international fair value measurement projects will be monitored. 7.1 Staff Paper: Fair Value Measurement in the Public Sector
May 2017	The Board decided to continue work on key projects on its existing work program, noting the need to accelerate progress on its Australian Reporting Framework project as a priority over the 2017-2019 period. At this meeting, the Board also considered possible topics where there may be opportunity to improve reporting and decided to add projects to its 2017-2019 work program to: (a) clarify the application of AASB 13 Fair Value Measurement to not-for-profit public sector entities regarding obsolescence, restrictions and disclosures; … 3.1 Staff Paper: Project plan – AASB 13 for public sector entities