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Dear ~~Mr Stevenson~~ Kevin

EXPOSURE DRAFT 181 FAIR VALUE MEASUREMENT

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the Australian Accounting Standards Board on the International Accounting Standards Board Exposure Draft: *ED 2009/5 Fair Value Measurement*.

Whilst HoTARAC supports the introduction of a consistent approach to the measurement of fair value, the majority of HoTARAC members do not support the proposed definition of fair value in the Exposure Draft, mainly because exit price only meets the qualitative characteristics for accounting information when there is an active and efficient market and, even then, only for financial assets.

HoTARAC's view is supported by an extensive history of accounting research on measurement, and has been raised in communications with the IASB as part of its work in developing measurement principles. Consequently, the majority of HoTARAC members are uncertain with why the IASB is persisting with this view. Adequate recognition must be given to the role of replacement cost and value-in-use (discounted cash flow) and the IASB proposal does not achieve this.

As the definition of fair value is critical to the measurement principles in many Accounting Standards, HoTARAC is of the view that the subject covered by this proposed Standard should be addressed in the Conceptual Framework, rather than an Accounting Standard. This should be achieved in a way that does not prevent use of the (historical) cost model, where this is currently permissible in a specific standard. HoTARAC is also concerned that the focus of this Exposure Draft tends to be towards financial instruments and that the implications of applying the guidance to other forms of assets and liabilities has not been adequately explored or addressed. In this respect, HoTARAC is concerned about the level of overlap between this Exposure Draft and the separate IASB Exposure Draft 2009/7 *Financial Instruments: Classification and Measurement*.

While HoTARAC notes that there are similarities between the three-tier fair value hierarchy set out in the Exposure Draft and the Government Finance Statistics measurement methodology, HoTARAC is of the opinion that the fair value hierarchy is too broad, in that reliability, understandability and comparability would not be the same under all three levels, and that the fair value hierarchy has the potential to place more credibility on observable data from markets, that have nothing to do with the asset, than that of the asset's relevant replacement cost or discounted present value

Finally, while the above comments are general in nature, there is an additional public sector context to the issue. While the holding of specialised assets and liabilities is not unique to the public sector, it is much more likely to hold them, due to its role. These include assets for which there are no exit values available, either because they are public goods or there is a prohibition on sale. Exit values for many government liabilities would be inappropriate, since the private sector would not accept them except with a large risk-margin. Under these circumstances, the government would not rationally transfer its liability and exit values would become irrelevant.

Notwithstanding the above comments, HoTARAC's detailed response to the questions set out in the Exposure Draft is provided in attachment 1.

HoTARAC is not aware of any regulatory impediments to implementation of the changes. HoTARAC offers no comment about whether the changes are in the best interests of the Australian economy.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Department of Finance and Deregulation on 02 6215 3551.

Yours sincerely

Don Challen

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

30 September 2009

Encl

Contact: Amy Huxley
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Attachment 1

HoTARAC Response to AASB ED 181 (IASB ED 2009/5) Fair Value Measurement

Definition of fair value and related guidance

Question 1

The Exposure Draft proposes defining fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (an exit price) (see Paragraph 1 of the draft IFRS and Paragraphs BC15–BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs.

Is this definition appropriate? Why or why not? If not, what would be a better definition and why?

No, the majority of HoTARAC members consider the definition to be inappropriate.

As explained in HoTARAC's submission to the 2007 IASB Discussion Paper *Fair Value Measurements,* although exit prices are consistent with the current Framework, there are a number of instances in which an entry price (also consistent with the Framework), or another measurement basis, might be more appropriate to users, such as:

- illiquid markets where exit prices are not readily available;
- specialised assets;
- assets held in locations remote to the principal market; and
- assets and liabilities which the entity does not intend to, or cannot, dispose of.

It is HoTARAC's opinion that the qualitative characteristics, especially relevance, reliability and faithful representation, will be compromised on the application of the exit price definition in the absence of an active and effective market.

HoTARAC does not support the use of a hypothetical market in the absence of a market or observable market inputs. This includes circumstances where the entity's own assumptions may provide more meaningful information, for example, valuation of specialised assets. In some instances, the use of a hypothetical market is likely to mislead users, by overstating liabilities based on the amount to transfer, rather than settle the liability. A transfer price implicitly includes an allowance for the assuming entity's risks to profit margin, future administration costs and other associated costs.

HoTARAC notes that in Paragraph 38 of the proposed Standard, the IASB provides for three valuation techniques in measuring fair value – market, income, and cost. In particular, HoTARAC supports the cost approach (current replacement cost) which is generally appropriate for measuring the fair value of tangible assets using an in-use valuation premise. The discussion of this method in Paragraph 38(c), and the subsequent general discussion in Paragraph 39, suggests that the calculation is based on market factors / fair value (i.e. what it would cost the market to replace it). It is confusing that the replacement cost described seems more like a current entry price for a market participant. This appears inconsistent with the exit price methodology of the fair value definition. The income approach, which is discussed in Paragraph 38(b), is also inconsistent with an exit price methodology.

The view of the majority of HoTARAC members is that the definition needs to remain more generic, and reflect the purposes for which fair values are used by financial statement users, rather than being focused on exit price. Further, the definition needs to be appropriate for all assets and liabilities, whether they are financial or non-financial in nature, and whether or not market participants can be identified. This may be achieved by revising the proposed hierarchy. Attention to the concept of deprival value may also be warrented.

A minority of HoTARAC members agree with the IASB's conclusion that an exit price is a relevant definition, regardless of whether an entity intends to use or sell an asset (based on the reasoning in BC23).

Scope

Question 2

In three contexts, IFRSs use the term 'fair value' in a way that does not reflect the Board's intended measurement objective in those contexts:

(a) In two of those contexts, the Exposure Draft proposes to replace the term 'fair value' (the measurement of share-based payment transactions in IFRS 2 Share-based Payment and reacquired rights in IFRS 3 Business Combinations) (see Paragraph BC29 of the Basis for Conclusions).

(b) The third context is the requirement in Paragraph 49 of IAS 39 Financial Instruments: Recognition and Measurement that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (see Paragraph 2 of the draft IFRS and Paragraph BC29 of the Basis for Conclusions). The Exposure Draft proposes not to replace that use of the term 'fair value', but instead proposes to exclude that requirement from the scope of the IFRS.

Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?

First context (Share-based payments)

Yes, HoTARAC considers the proposed approach to be appropriate. HoTARAC considers that the meaning of 'fair value' in IFRS 2 *Share-based Payment* which is different to the meaning used in the other standards could be confusing. HoTARAC agrees that the use of market-based value would be more suitable and would eliminate this confusion.

Second context (Reacquired rights)

Yes, HoTARAC considers the proposed approach to be appropriate. The measurement of reacquired rights is based on the remaining contractual term and not that of a market participant's fair value. This would not require a link to the draft Standard.

Third context (Financial liability with a demand feature)

No, HoTARAC is of the view that the requirement in IAS 39 should be amended so that it does not refer to fair value. HoTARAC members believe that, wherever a measurement method is described as fair value throughout the standards, it must have a consistent meaning.

The transaction

Question 3

The Exposure Draft proposes that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access (see Paragraphs 8–12 of the draft IFRS and Paragraphs BC37–BC41 of the Basis for Conclusions).

Is this approach appropriate? Why or why not?

Yes. HoTARAC considers the use of the 'most advantageous market' to be appropriate as long as the Standard does not require an entity to complete an exhaustive search. Also, HoTARAC further supports the proposal because it has to be physically possible, legally permissible, and financially feasible. In HoTARAC's response to the 2007 Discussion Paper, it was noted that the market to settle the liability could be viewed as the most advantageous market.

However, the IASB needs to consider the concept of the 'most advantageous market' and whether it applies equally to liabilities. It seems less likely that non-financial liabilities will be dealt with in markets (particularly employee benefits and provisions), and that for an entity to transfer many liabilities, the acquirer would demand such a large risk premium as to make the transfer uneconomical from a rational point of view. This is a similar argument used to support use of replacement cost or other methods for valuation of specialist assets.

Question 4

The Exposure Draft proposes that an entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability (see Paragraphs 13 and 14 of the draft IFRS and Paragraphs BC42–BC45 of the Basis for Conclusions).

Is the description of market participants adequately described in the context of the definition? Why or why not?

Yes, in principle. HoTARAC broadly supports the description of market participants. HoTARAC considers there to be potential practical issues (such as reliability, time and cost) in developing the market participant assumptions referred to in Paragraph 14. The development of market participant assumptions would need to be undertaken for each asset and liability. In particular, market participants with whom the reporting entity would enter into a transaction in that market. HoTARAC does have a practical concern about identification of market participants, where there is either no possibility of a market or the market participants are not required to value the asset or liability, for example, individual employee participants in a post-employment health plan.

HoTARAC does not agree with BC43. HoTARAC considers that 'arm's length' and 'orderly' transactions do not express the same notion. An arm's length transaction suggests an exchange between unrelated parties, while an orderly transaction implies an exit price notion that the parties are able to freely enter into a transaction without restriction or duress.

Application to assets: highest and best use and valuation premise

Question 5

The Exposure Draft proposes that:

(a) the fair value of an asset should consider a market participant's ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use (see Paragraphs 17–19 of the draft IFRS and Paragraph BC60 of the Basis for Conclusions).

(b) the highest and best use of an asset establishes the valuation premise, which may be either 'in use' or 'in exchange' (see Paragraphs 22 and 23 of the draft IFRS and Paragraphs BC56 and BC57 of the Basis for Conclusions).

(c) the notions of highest and best use and valuation premise are not used for financial assets and are not relevant for liabilities (see Paragraph 24 of the draft IFRS and Paragraphs BC51 and BC52 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

Overall concerns re "highest and best use"

On the basis of the proposal in the Exposure Draft, reporting asset values according to their highest and best use, in conjunction their potential uses with other assets/liabilities, may diminish the usefulness of the Statement of Financial Position. For example, rather than reporting on the value of an entity's assets at a given date (and largely reflecting their current uses), the Exposure Draft's proposals may result in a Statement of Financial Position depicting aspirational values, based on possible future opportunities, that may not necessarily be pursued by the entity.

HoTARAC members believe the highest and best use approach as described may result in significant costs and practical difficulties. Assessments of highest and best use could lead to an increased level of subjectivity. This may result in difficulties in the audit verification of asset values. The disclosure of highest and best use values may also be undesirable from a commercial-in-confidence perspective.

Comments below on proposals (a), (b) and (c) should be read subject to the above.

Proposal (a)

Yes, HoTARAC considers the principles behind proposal (a) to be appropriate, but has concerns with its approach.

As pointed out in Paragraph 18 "an entity need not perform an exhaustive search", it would suggest that this could therefore place an unnecessary burden on preparers in establishing the highest and best use, especially if it might require an ongoing assessment. HoTARAC supports highest and best use as long as it is not exhaustive, and takes into account restrictions that would be imposed on the sale of military equipment or other highly specialised/sensitive assets.

Further, HoTARAC has a concern with the subjective element of identifying highest and best use. In particular, how the highest and best use would be identified for alternative buyers.

As mentioned in response to Question 1, HoTARAC believes the fair value model needs to be appropriate for all assets and liabilities, whether they are financial or non-financial in nature.

Proposal (b)

Yes, the majority of HoTARAC members consider the principles behind proposal (b) to be appropriate. However, HoTARAC has similar concerns as pointed out in its response to proposal (a). The minority views are reflected below.

A minority of HoTARAC members consider the terms “in use” and “in exchange” do not clearly distinguish between the two ways in which highest and best use may be determined. As both ways involve an exchange to a market participant who would use the asset, the only difference between the two methods is, whether the asset would provide maximum value to the market participant, in conjunction with other assets or on a stand-alone basis. The minority view is that these terms should be amended accordingly.

A minority of HoTARAC members consider that some may view the current exit value definition of fair value (or core principle) as being inconsistent with the “in use” and “cost approach”. This is because in accounting literature, the use of an “in use” valuation premise and the “cost approach” has been linked with the current entry approach. In effect, the minority HoTARAC view is the ED seems to change long accepted concepts in the accounting literature by incorporating the “in use” and “cost approach” within the concept of the current exit value. This change needs to be acknowledged in the proposed Standard.

Again, as mentioned in response to Question 1, HoTARAC believes the fair value model needs to be appropriate for all assets and liabilities, whether they are financial or non-financial in nature.

Proposal (c)

Yes, HoTARAC considers proposal (c) to be appropriate. This reinforces HoTARAC’s comments in response to Question 1 that the fair value model needs to be appropriate for all assets and liabilities, whether they are financial or non-financial in nature.

Question 6

When an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset, the Exposure Draft proposes that the entity should separate the fair value of the asset group into two components: (a) the value of the assets assuming their current use and (b) the amount by which that value differs from the fair value of the assets (ie their incremental value). The entity should recognise the incremental value together with the asset to which it relates (see Paragraphs 20 and 21 of the draft IFRS and Paragraphs BC54 and BC55 of the Basis for Conclusions).

Is the proposed guidance sufficient and appropriate? If not, why?

Yes, the majority of HoTARAC members consider the proposed guidance to be sufficient and appropriate. HoTARAC is supportive for the same reasons as in the response to Question 5.

However, a minority of HoTARAC members would prefer more clarity about how the approach to valuing assets on a group basis interacts with the separate impairment requirements in IAS 36, where the value of a cash-generating unit needs to be determined in the course of calculating adjustments to be made at an individual asset level.

In respect of complex assets, for which there is a requirement to separately depreciate significant parts (refer to IAS 16), a minority of HoTARAC members consider there should be greater clarity about how the group approach to valuing assets interacts with separate requirements to disaggregate an asset for depreciation purposes. This valuation approach would increase the complexity and administrative burden of accounting for such assets.

Application to liabilities: general principles

Question 7

The Exposure Draft proposes that:

(a) a fair value measurement assumes that the liability is transferred to a market participant at the measurement date (see Paragraph 25 of the draft IFRS and Paragraphs BC67 and BC68 of the Basis for Conclusions).

(b) if there is an active market for transactions between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. An entity adjusts the observed price for the asset for features that are present in the asset but not present in the liability or vice versa (see Paragraph 27 of the draft IFRS and Paragraph BC72 of the Basis for Conclusions).

(c) if there is no corresponding asset for a liability (eg for a decommissioning liability assumed in a business combination), an entity estimates the price that market participants would demand to assume the liability using present value techniques or other valuation techniques. One of the main inputs to those techniques is an estimate of the cash flows that the entity would incur in fulfilling the obligation, adjusted for any differences between those cash flows and the cash flows that other market participants would incur (see Paragraph 28 of the draft IFRS).

Are these proposals appropriate? Why or why not? Are you aware of any circumstances in which the fair value of a liability held by one party is not represented by the fair value of the financial instrument held as an asset by another party?

Proposal (a)

No, HoTARAC considers proposal (a) to be inappropriate. HoTARAC reiterates its position from the 2007 Discussion Paper that it does not support the use of the term 'transfer' in assessing the fair value of a liability. HoTARAC prefers the term 'settlement' as, transfer price implicitly includes an allowance for assuming an entity's risk, future administered costs and other associated costs. As previously mentioned, HoTARAC prefers a more generic fair value definition that reflects the purposes for which fair values are used by users of financial statements, and which is appropriate for all assets and liabilities, whether they are financial or non-financial in nature, and whether or not market participants can be identified.

Proposal (b)

No, HoTARAC has concerns with the practicality and feasibility of this approach. In particular, in relation to the extent that the asset would have to be evaluated in order to determine the adjustment factors. HoTARAC is also concerned that the proposal implies that it will always be possible to develop a market-derived (exit price) value for a liability, when this is clearly not the case.

Proposal (c)

No, HoTARAC considers proposal (c) to be appropriate in only a limited number of circumstances. As previously noted, many liabilities are so specific to the entity that other entities would not accept a transfer unless a premium for risk was incorporated at a level such that the holding entity would not rationally transfer the liability.

As already mentioned, HoTARAC believes the fair value model needs to be appropriate for all assets and liabilities. Therefore, consideration needs to be given to the implications of these requirements to non-financial liabilities.

- Provisions do not necessarily have an identifiable current counterparty, for example decommissioning provisions.
- The counterparty to employee benefits is the employees.

Application to liabilities: non-performance risk and restrictions

Question 8

The Exposure Draft proposes that:

(a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfil the obligation (see Paragraphs 29 and 30 of the draft IFRS and Paragraphs BC73 and BC74 of the Basis for Conclusions).

(b) the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability (see Paragraph 31 of the draft IFRS and Paragraph BC75 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

Proposal (a)

No, HoTARAC strongly considers proposal (a) to be inappropriate and draws attention to its response to Discussion Paper 2009/2 *Credit Risk in Liability Measurement*. HoTARAC is of the opinion that the inclusion of an entity's own non-performance risk (credit risk) in the valuation of a liability (other than as a component of overall risk) incorrectly values the liability and would not provide decision-useful information to financial statement users.

Proposal (b)

No, HoTARAC considers proposal (b) to be inappropriate. HoTARAC considers that a restriction on an entity's ability to transfer a liability does affect the liability's fair value. HoTARAC notes that one of the factors for assets is that they are 'legally permissible'. Therefore, HoTARAC considers that it should also be a factor for a liability. HoTARAC does not consider it appropriate for the IASB to propose that, in circumstances where it is legally not possible to transfer a liability, it is valued as if it could be transferred anyway.

Fair value at initial recognition

Question 9

The Exposure Draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see Paragraphs 36 and 37 of the draft IFRS, Paragraphs D27 and D32 of Appendix D and Paragraphs BC76–BC79 of the Basis for Conclusions).

Is this proposal appropriate? In which situation(s) would it not be appropriate and why?

Yes, HoTARAC considers the proposal to be appropriate, but does have a concern with the use of unobservable inputs.

HoTARAC is of the view that the situations provided in Paragraph 36 as to when the transaction price and the fair value at initial recognition might differ are appropriate. However, although HoTARAC agrees with the proposal, in principle, HoTARAC does have some concerns with Paragraph 37. This is because when unobservable (level 3) inputs are used in calculating the fair value of non-financial assets and liabilities the resulting gain or loss, recognised by the entity could be subjective and could lead to a manipulation of the data used by management. At present, day 1 gains or losses are only recognised when the fair value is based solely on observable inputs. This restricts the ability of management to manipulate data.

Valuation techniques

Question 10

The Exposure Draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see Paragraphs 38–55 of the draft IFRS, Paragraphs B5–B18 of Appendix B, Paragraphs BC80–BC97 of the Basis for Conclusions and Paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples).

Is this proposed guidance appropriate and sufficient? Why or why not?

No, HoTARAC considers the proposed guidance to be insufficient and inappropriate.

It is the view of HoTARAC that the hierarchy (level 1, 2 and 3 inputs) proposed by the IASB has the potential to place more credibility on observable data from markets that have nothing to do with the asset (a position that is not always tenable) than that of the asset's relevant replacement cost, or discounted present value.

The use of exit values, in some cases, is not considered to be appropriate as the market prices could be unreliable, especially in the case when the market is inactive. Therefore the entity should use the replacement cost method. The consideration of the hierarchy for non-financial assets would not always be the most appropriate. As the hierarchy focuses on purely an exit value notion, the IASB should change the hierarchy for proper consideration of replacement cost and discounted net present value.

Disclosures

Question 11

The Exposure Draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for 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 (see Paragraphs 56–61 of the draft IFRS and Paragraphs BC98–BC106 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

No, HoTARAC considers the proposals to be inappropriate for non-financial assets and liabilities. Further, some HoTARAC members are concerned about the additional disclosure burden on interim financial statements, which are more concise than complete annual financial statements.

HoTARAC is concerned with the disclosure of non-financial assets and liabilities at fair value, as it may place an unnecessary burden on preparers with the distinction between level 1, 2 and 3 inputs. HoTARAC considers the disclosure requirements to be too extensive for non-financial assets and liabilities. However, if the level of subjectivity is minimised in determining fair value, some HoTARAC members consider the amount of disclosure that would be required will be more manageable for preparers and users.

The disclosure requirements for financial instruments are somewhat consistent with the current approach. The majority of HoTARAC members consider the current requirements to be onerous and in need of a full review by the IASB.

Convergence with US GAAP

Question 12

The Exposure Draft differs from Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157) in some respects (see Paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157.

Do you agree that the approach that the Exposure Draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?

In principle, yes, HoTARAC agrees that the approach taken in the Exposure Draft is more appropriate than SFAS 157 although, for reasons already given and repeated below, further amendments are required.

As discussed in the response to Question 3, HoTARAC supports the use of the ‘most advantageous market’. SFAS 157 uses the ‘principal market’.

HoTARAC also supports the increase in disclosure proposed by the IASB, which is more extensive than that of SFAS 157, in that it is applied to financial instruments. In particular requiring disclosure of:

- fair value by hierarchy level;
- significant transfers between level 1 and level 2 of the fair value hierarchy together with the reasons for those transfers; and
- the use of level 3 inputs.

However, HoTARAC is concerned about the need for the proposed level of disclosure for non-financial assets and liabilities at level 3, which will include most such assets and liabilities if an exit value approach is taken. For example, if disclosures for property, plant and equipment were to match the level of disclosure for financial instruments, the length of the financial statements of major owners of non-financial assets using the fair value method would render them unusable.

HoTARAC reiterates its concern, expressed in its response to the 2007 Discussion Paper regarding the focus on financial instruments over other assets and liabilities. HoTARAC considers the proposed Standard, like SFAS 157, to be biased towards financial instruments, rather than including an examination of all assets and liabilities. HoTARAC is therefore concerned that all assets and liabilities are expected to follow the accounting treatment of financial instruments by default, rather than considering their individual characteristics and the requirements of users.

Other comments

Question 13

Do you have any other comments on the proposals in the Exposure Draft?

Editorial comments

HoTARAC draws attention to Appendix A Defined Terms:

- ‘*Transaction costs*’, although in italics in Paragraph 8 of the proposed Standard with ‘*transport costs*’ (which is included in the Defined Terms), is not included in the Appendix A Defined Terms. Paragraph 16 provides a definition of transaction costs.
- ‘*Active market*’ and ‘*International Financial Reporting Standards (IFRSs)*’ are in Appendix A Defined Terms yet are not in italics anywhere in the proposed Standard.

Other issues (not covered in the proposed Standard)

HoTARAC is of the view that the Standard could be further divided into financial and non-financial assets and liabilities given their distinct nature and to reduce potential confusion in the Standard’s application.