Australian Government

Department of Finance and Deregulation

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Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
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Dear ~~Mr Stevenson~~ Kevin

AASB Exposure Draft 199 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*

The Department of Finance and Deregulation (Finance) welcomes the opportunity to provide comments on Exposure Draft 199 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements.* Finance supports the Heads of Treasuries' Accounting and Reporting Advisory Committee (HoTARAC) comments on ED 199 but would like to expand on and add to the HoTARAC submission.

AASB should note that for the Public Sector in Australia, the broadening of the fair value hierarchy to non-financial assets may have a significant impact on the reporting of its Property Plant and Equipment (PPE). Currently, these assets are measured at fair value and generally lack markets. Due to the specialised characteristics of public sector assets, it is likely that the fair value measurement would require substantial use of level 3 inputs and thus would be required to provide the IASB proposed level 3 disclosure. We would expect that firms in the private sector holding highly specialised assets at fair value would have similar concerns.

For such assets, depreciated replacement cost is often applied as the most relevant fair value measurement. Data collected and the application of this measurement method is well established, verifiable, generally accepted by auditors and would in Finance's opinion not require additional disclosure.

Finance is of the view that the IASB proposed fair value hierarchy is too broad in that reliability, understandability and comparability would not be the same under all three levels and 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. Depreciated replacement cost may actually represent more faithfully the fair value of public sector assets and should not be devalued or considered less useful to users than level 1 inputs.

Finance supports the development of a fair value model for all assets and liabilities. However, it should be at a conceptual level and 'principle-based'. This would remove the apparent biased towards applying the financial instruments fair value model.

In addition and based on our comment above, public sector non-financial assets will require a substantial increase of disclosure – and therefore significant cost - that may not be relevant to users. Finance is not aware of any evidence that indicates that the current level of disclosure on the fair value of these assets is not satisfying report users. Finance is therefore of the view that the IASB proposed disclosure requirement for specialised non financial assets is neither operational nor appropriate.

Finance also notes that those users who may benefit from the IASB proposed disclosure are likely to be specialist users with particular information needs, not mainstream users of general purpose financial statements.

If the IASB was to proceed with the level 3 disclosure for non-financial assets, an alternative disclosure requirement could be, as per the IASB Advisory Expert Panel comment, to provide more clarity about controls and governance, at a high level, over the estimation of fair values of assets that are of particular interest. This information would be more relevant, appropriate and meet the cost/benefit analysis. Further, Finance notes that the valuation methodology, faithful representation, relevance and reliability of data for such assets are generally verifiable by auditors.

Further, to assist in applying the level 3 disclosure requirement for non-financial liabilities, additional guidance and examples should be provided.

If you have any queries regarding Finance's comments, please contact Peter Gibson on 02 6215 3551.

Yours sincerely

Peter Gibson
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