

**Australian Government****Department of Finance and Deregulation**

Reference: RMS12/05883  
Contact: Veronique Row  
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Mr Kevin Stevenson  
Chairman  
Australian Accounting Standard Board  
PO Box 204  
COLLINS ST WEST VIC 8007

Dear Mr Stevenson

**ED 227 - Proposed Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms**

The Department of Finance and Deregulation (Finance) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on Exposure Draft 227 *Proposed Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms* (“the ED”).

Finance agrees with the ED’s proposal to extend the transitional relief from the requirement to adopt amendments to the ABS GFS Manual requiring Defence Weapons Platforms to be measured at fair value for a further 2-year period.

Finance is not aware of any regulatory or other issues arising in the Australian environment that may affect the proposal.

In support of our comments, I have attached a copy of a letter Mr Peter Gibson, Acting First Assistant Secretary, Financial Reporting & Cash Management Division at Finance, sent to you on the 3 August 2012 setting out in detail Finance’s rationale for supporting the proposed extension of transitional relief.

If you have any questions regarding Finance’s comments please contact me on (02) 6215 2104.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Row'.

Veronique Row  
A/g Assistant Secretary – Accounting Policy Branch  
Department of Finance and Deregulation

13 November 2012



**Australian Government**

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Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
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600 Bourke Street  
Melbourne Vic 3000

Dear Mr ~~Stevenson~~ *Kevin*

**Fair Value Measurement of Defence Weapons Platforms – Request for Transitional Relief**

I am writing to you in response to your letter to the Department of Defence (Defence) dated 24 February 2012. In line with your comments, the Department of Finance and Deregulation (Finance) is seeking further transitional relief from the application of the amendment to the Australian Bureau of Statistics (ABS) GFS Manual, specifically regarding the requirement for a fair value measurement to be applied to Defence Weapons Platforms (DWPs). This is in addition to the current relief provisions provided in *AASB 2011-3 – Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments*. It is my understanding that restricting this additional relief to the DWPs class of assets would result in no impact on reporting by State governments or other individual Commonwealth government agencies.

As mentioned in previous letters concerning this issue, Defence faces significant practical and conceptual difficulties in relation to the requirement to apply fair value to DWPs. This task requires a substantial investment of time and resources to achieve. Additional transitional provisions will give Defence the time needed to conduct further investigations to determine the appropriate approach and assist with the expected extensive liaison with the auditor to reach an acceptable outcome. This has taken longer than we had anticipated and is likely to take some time yet due to the nature of the issue.

As you recognised in your response to the previous correspondence, you are aware that there are issues in applying a reliable valuation technique to these very specialised and quite often complex assets. After considering AASB 13 *Fair Value*, Defence is investigating applying depreciated replacement cost to DWPs to obtain a fair value. This is based on the preface that neither a market value, nor income approach can be applied to obtain a fair value measurement of the greater majority of DWPs. Depreciated replacement cost (as opposed to reproduction cost), however, also presents issues, as many of the DWP assets are so specialised and complex in nature that it is difficult to identify a reliable measurement.

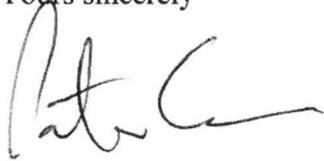
One option could be the appointment of an independent valuation expert. However, is likely to require an extensive search to identify individuals with the necessary skills, and would be further delayed by the need to obtain appropriate security clearances before access can be granted to highly-classified Defence assets.

Clarification by the ABS on the fixed assets/inventory classification is still outstanding and there is an indication that ABS is likely to include this issue as part of its current ABS GFS Manual Review. This review is expected to be completed by June 2013. While not the prime reason for seeking additional transitional time, it would be beneficial in resolving this matter as well.

Finance holds the view that delaying the ABS GFS Manual requirement that DWPs be carried at market value until the year ending 30 June 2015 would allow for appropriate time to resolve the issues at hand.

I thank you for considering this request and look forward to your response. Please do not hesitate to contact me on (02) 6215-3551 if you wish to further discuss any of the above.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Gibson', with a stylized flourish at the end.

Peter Gibson  
A/g First Assistant Secretary  
Financial Reporting & Cash Management  
Department of Finance and Deregulation  
3 August 2012