

AASB ED 320 – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

Specific matters for comment to the AASB by 30 June 2022

The following comments from the Australian Bureau of Statistics (ABS) follow on from the previous submission to ITC 45 in relation to fair value.

1. Do you consider that the proposed authoritative implementation guidance should be applicable also to NFP entities in the private sector? Please provide reasons to support your view.

The ABS has no view on how authoritative implementation guidance for accounting standards should be applied across sectors.

From a macroeconomic statistics perspective, the concepts of market value and fair value are applied consistently across all sectors of the economy.

2. Do you agree with the AASB's conclusion that determining appropriate measurement techniques for measuring the fair value of land and improvements on land subject to public-sector-specific legal restrictions is best regarded as relating to detailed valuation assessments and should not be mandated in Australian Accounting Standards (see paragraphs BC164–BC170)? Please provide reasons to support your view.

The ABS has no view on what should be mandated in Australian Accounting Standards.

From a macroeconomic statistics perspective, legal restrictions should be taken into account when measuring the fair value of an asset, if market participants would take those same restrictions into account when pricing the asset.

Market participant assumptions

3. In respect of the assumptions used in measuring the fair value of a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, do you agree with the proposals in paragraphs F4–F7 that:
 - (a) if the market selling price of an identical asset is directly observable, that price (which incorporates implicitly the assumptions that other market participants would use when pricing the asset, negating the need to identify those assumptions) should be used to estimate the fair value of the asset; and
 - (b) if the market selling price of an identical asset is not directly observable, the entity would need to explicitly estimate the pricing assumptions that other market participants would use. In this case, to maximise the use of relevant observable inputs and minimise the use of unobservable inputs:
 - (i) if all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity should use those assumptions in measuring the fair value of the asset; or
 - (ii) if not all relevant information about other market participant assumptions needed to estimate the fair value of the asset is reasonably available, the entity would need to develop unobservable inputs in measuring the fair value of the asset. When applying paragraph 89 to develop unobservable inputs, the entity should use its own assumptions

as a starting point and make adjustments to those assumptions if reasonably available information indicates that other market participants would use different data; or

- (iii) if no relevant information about other market participant assumptions is reasonably available, the entity should use its own assumptions in measuring the fair value of the asset?

Please provide reasons to support your view.

The ABS agrees with the proposals in paragraphs F4–F7.

The ABS supports general principles of valuation, where a valuation technique is applied that is appropriate to individual circumstances and for which sufficient data are available to measure fair value.

These valuations should maximise where possible the use of observable prices for comparable assets or relevant observable inputs for pricing assumptions that would be used by market participants.

4. Paragraph F8 provides examples of assets for which:

- (a) market selling prices of an identical or a comparable asset are unlikely to be directly observable; and
- (b) no relevant information about different assumptions of other market participants is likely to be reasonably available.

Do you agree with the examples in paragraph F8? Please provide reasons to support your view.

The ABS agrees with the examples in paragraph F8.

These examples provide practical case studies in applying the previously described guidance.

Highest and best use

5. Do you agree with the proposal in paragraphs F9–F11 that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use should be rebutted when, and only when, the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or to use the asset for an alternative purpose? Please provide reasons to support your view.

The ABS disagrees with the proposal in paragraphs F9–F11. From a macroeconomic statistics perspective, committed 'to a plan' is not an explicit concept that can be applied.

When an entity's management has fully committed to sell the asset or to use the asset for an alternative purpose, the impact of this economic decision should be reflected in the valuation of the asset from that point in time forward when the asset is ready for sale.

6. Do you agree with the example in paragraph F10 of steps that might, in some circumstances of a particular entity, need to be completed before the appropriate level of the entity's management is committed at the measurement date to a plan to sell the asset or use the asset for an alternative purpose, namely:

- (a) relevant field studies or a Ministerial briefing on whether there is a market for the asset (and, if so, its likely price) or for the alternative services that the asset could be used to provide;
- (b) initial due diligence processes to determine that a sale of the asset or an alternative use of the asset is possible within the current socio-economic environment and would maximise the asset's value; and

- (c) development of project milestones and expected timelines to complete the sale or the plan to use the asset for the alternative purpose?

Please provide reasons to support your view.

The ABS disagrees with the example in paragraph F10, based on concerns with the proposal in paragraphs F9–F11.

7. Do you agree with the proposal in paragraph F12 that an entity is only required to assess whether a use of the asset is physically possible, legally permissible and financially feasible in accordance with paragraph 28 when (per paragraph F9) the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted? Please provide reasons to support your view.

The ABS disagrees with the proposal in paragraph F12, as further clarification is required.

8. Do you agree with the draft implementation guidance in paragraph F13 for applying the 'financially feasible use' concept described in AASB 13 paragraph 28(c), namely that, for a non-financial asset of an NFP public sector entity not held primarily for its ability to generate net cash inflows, a use is financially feasible if market participants (including NFP public sector entities) would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services? Please provide reasons to support your view.

The ABS has no comment on this question, as the 'financially feasible use' concept is not used in macroeconomic statistics.

Application of the cost approach

Questions 9–16 relate to applying the cost approach under AASB 13 paragraphs B8–B9.

9. Do you agree with the proposal in paragraph F14(a) that the entity should assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location? Please provide reasons to support your view.

The ABS agrees with the proposal in paragraph F14(a).

When measuring fair value of an asset, an entity should take into account particular characteristics of the asset if market participants would take those same characteristics into account when pricing the asset, including the current location of the asset.

10. Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? Please provide reasons to support your view.

The ABS has no comment on this question.

11. Do you agree with the proposal in paragraphs F14(b) and F14(c) that, when estimating the current replacement cost of the subject asset, the entity should estimate the replacement cost of a reference asset (ie a modern equivalent asset or a replica asset) as input and adjust the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset? Please provide reasons to support your view.

The ABS has no comment on this question.

12. Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.

The ABS agrees with the proposal in paragraph F15(a).

From a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs.

13. Do you agree with the proposal in paragraph F15(b) that, when estimating the current replacement cost of the subject asset, an entity should determine, based on the circumstances of the subject asset, whether the following costs would (among other costs) need to be incurred upon the hypothetical acquisition or construction of that asset at the measurement date:

- (a) unavoidable costs of removal and disposal of unwanted existing structures on land; and
- (b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs?

Please provide reasons to support your view.

The ABS agrees with the proposal in paragraph F15(b).

From a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs.

14. Do you agree with the proposal in paragraph F15(c) that an NFP public sector entity includes in the subject asset's current replacement cost all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity? Please provide reasons to support your view.

Please note that Illustrative Examples 1 and 2 illustrate the application of paragraphs F14 and F15.

The ABS agrees with the proposal in paragraph F15(c).

From a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs.

Economic obsolescence

15. Do you agree with the proposal in paragraph F16 that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity? Please provide reasons to support your view.

The ABS agrees with the proposal in paragraph F16.

From a macroeconomic statistics perspective, identifying economic obsolescence would not be limited to circumstances where a formal decision has been made to reduce the asset's physical capacity.

16. Do you agree with the proposal in paragraph F17 and the example in paragraph F18 that economic obsolescence should not be identified for any 'surplus capacity' of an asset that is necessary for stand-by or safety purposes (eg to deal with contingencies), even if it seldom or never is actively utilised? Please provide reasons to support your view.

The ABS has no comment on this question, as the 'surplus capacity' concept is not used in macroeconomic statistics.

Application of the proposed implementation guidance

17. Do you agree with the proposal in paragraph AusC6.1 that the proposed authoritative implementation guidance set out in Appendix F should be applied prospectively? Please provide reasons to support your view.

From a macroeconomic statistics perspective, in principle any material change to the valuation of assets must be applied consistently, both retrospectively and prospectively. Unless the new valuation is still deemed to reflect an appropriate market value equivalent.

The ABS understands that changes to Accounting Standards are typically only applied prospectively.

18. If you agree with prospective application in Question 17, do you consider that it would be appropriate for the AASB to provide an option for an NFP public sector entity to elect to restate comparative information as if the authoritative implementation guidance in Appendix F had been applied from a preceding period? Please provide reasons to support your view.

The ABS has no comment on this question, based on the reasons noted above in Q17.

To understand the impact of reporting changes, the ABS would request comparable information from data providers if a material change in the valuation of assets has occurred.

19. If you consider it appropriate for the AASB to provide an option for an NFP public sector entity to restate comparative information (see Question 18), do you consider it appropriate that, if an entity elects to restate comparative information, it should be required to disclose the amount of the adjustment for each financial statement line item affected, as if the implementation guidance had:

- (a) always been applied (ie full retrospective application in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors); or
- (b) been applied from a specific preceding period, for example, the beginning of the immediately preceding period presented in the financial statements (ie modified retrospective application)? If so, please specify which preceding period you think would be appropriate.

Please provide reasons to support your view.

The ABS has no comment on this question, based on the reasons noted above in response to Q17.

To understand the impact of reporting changes, the ABS would request comparable information from data providers if a material change in the valuation of assets has occurred.

20. Further to Question 19, do you consider it would be appropriate for such optional restatements, if elected, to be required for all affected assets, except to the extent it is impracticable for the entity to determine either the period-specific effects of the implementation guidance or the cumulative effect of the change? Please provide reasons to support your view.

The ABS has no comment on this question, based on the reasons noted above in response to Q17.

To understand the impact of reporting changes, the ABS would request comparable information from data providers if a material change in the valuation of assets has occurred.

21. Do you agree that the proposed authoritative implementation guidance set out in Appendix F should be applied for annual periods beginning on or after 1 January 2024, with earlier application permitted? Please provide reasons to support your view.

The ABS has no comment on this question.

General matters for comment

The AASB would also particularly value comments on the following general matters:

22. Whether the AASB Not-for-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

The ABS has no comment on this question.

23. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

Any change to the existing fair value approach as currently applied under AASB 13 could carry additional costs for the ABS to prepare alternative fair value (market value equivalent) measures for assets, to retain coherence with existing valuations in GFS and the National Accounts.

These costs may also be passed onto GFS data providers, as the ABS seeks a continuation of the existing measurement basis in GFS data provision.

These costs would be reduced if the new valuation approach is still deemed to reflect an appropriate market value equivalent.

24. Whether, overall, the proposals would result in financial statements that would be useful to users?

The ABS has no comment on this question.

25. Whether the proposals are in the best interests of the Australian economy?

The ABS has no comment on this question.

26. Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?

The ABS has no comment on this question, other than what is noted above in response to Q23.

27. Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements

The ABS is unable to provide a quantitative estimate but as stated above, any change to the existing fair value approach as currently applied under AASB 13 could carry additional costs for the ABS to prepare alternative fair value (market value equivalent) measures for assets to retain coherence with existing valuations in GFS and the National Accounts.

These costs may also be passed onto GFS data providers, as the ABS seeks a continuation of the existing measurement basis in GFS data provision, unless the new valuations are still deemed by the ABS to reflect an appropriate market value equivalent.