

15 June 2022

## Comments on ED320

During the meeting of the special project team held yesterday it was requested that members of the project team provide any comments direct to the AASB. As requested, please find my comments below.

Overall, I am in full agreement with the principles outlined in the existing F paragraphs and associated BC paragraphs. However, I believe that the current wording of the F paragraphs needs to be strengthened to make better reference to some of the key issues covered in the BC paragraphs.

Furthermore, that there is a need for some additional illustrative example guidance to ensure consistent interpretation.

My reasoning is that because the wording in F paragraphs is based around principles only I believe that unless there is more specific clarification in the F paragraphs (as noted in the BC paragraphs) that the various inconsistent interpretations adopted in different jurisdictions will continue.

If the discussions held by the special project team have taught us anything, it is that different jurisdictions tend to cherry pick various BC paragraphs and also ignore them when interpreting standards. Unless the F paragraphs are specific, this behaviour of cherry picking and ignoring will no doubt continue and we will still be left with significant inconsistency in interpretation and adopted practices.

I would strongly recommend the contents of BC62 be added to the F paragraphs to ensure consistent application and interpretation in the various jurisdictions –

*BC62 Consistent with the IASB's analysis in the illustrative example quoted in paragraph BC61, the Board noted that the fair value measurement of an asset:*

*(a) would not take into account a restriction that is specific to the entity holding the asset, ie would not transfer to market participants in a hypothetical sale transaction (eg the restriction on the use of land in the IASB's example); but*

*(b) would take into account the effect of restrictions that would transfer to market participants in a hypothetical sale transaction (eg the easement restriction in the IASB's example).*

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As noted in yesterday's meeting, the roundtable discussions indicated a need for improved guidance around the determination of Current Replacement Cost.

While the board has noted in the BC paragraphs that the standard does not need to change (references to AASB13.11, B9 and the pattern of consumption for depreciation) the reality is that these are the areas which are widely misinterpreted and deliver the most significant non-compliance and inconsistency. As a result, I believe it is critical that relevant F paragraphs are included to clarify –

- The DRC approach is non-compliant with AASB13 CRC approach as the adjustment to Replacement Cost needs to be based on an allowance for obsolescence based on the key characteristics relevant to market participants and not an estimate of accumulated depreciation expense based on useful life and remaining useful life. Apart from general obsolescence, these are listed in paragraph 11 as well condition, location and restrictions on sale or use.
- Irrespective of the valuation technique (market, income or cost), to ensure the correct calculation of depreciation expense, each asset needs to be disaggregated into the different 'parts' consistent with the AASB May 2015 decision with the carrying amount of each part each part depreciated down to the residual value over their respective remaining useful life
- The Fair Value of the asset needs to be determined first and then depreciated over its RUL using a pattern of consumption consistent with the expected loss of relative value of the asset. I.e. If due to expected changes in the key characteristics indicate a 10% drop in relative value over the next five years and then 20% over the following five years, the adopted depreciation rate to apply currently should be 2% as it matches the expected pattern of consumption of the future economic benefit. The relevant depreciation rate and useful life then be reviewed annually as required by AASB116
- The straight-line method of depreciation should only be adopted if it matches the expected pattern of consumption of the future economic benefit.

Yours faithfully

**APV Valuers and Asset Management**



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