

## AASB ITC 45 – Request for Comment on IPSASB Exposure Drafts ED 76 and 77

### *AASB Specific Matters for Comment (AASB SMC)*

#### **Topic A: The measurement basis to apply when measuring the current value of an operational asset**

*AASB SMC 1 In respect of the measurement basis to apply when measuring the current value of an operational asset, do you agree with:*

- (a) The IPSASB’s proposal that fair value is inappropriate; or*
- (b) The AASB’s view that fair value is still appropriate (whether or not current practice in Australia in applying fair value is maintained)?*

*Please provide your reasons. See also AASB SMC 2 and SMC 3, which relate to this SMC.*

The ABS agrees with the AASB’s view.

The ABS is not supportive of any movement away from fair value, as that is the valuation basis most consistent with the GFS principle of market valuation.

Under GFS conceptual principles, all assets and liabilities should ideally be valued at their current market value. However, the ABS understands that market valuation can sometimes be challenging. As such the ABS accepts a market value equivalent which to date has been fair value.

The risk for the ABS is that any change from measuring assets at fair value would mean that the ABS is receiving data that is not consistent with GFS principles. It is therefore expected that the ABS would still maintain a requirement for GFS data providers to provide valuations in line with current practices and standards.

The benefits that would be gained by applying different valuation methods to different classes of assets is unclear to the ABS.

*AASB SMC 2 In respect of fair value, do you agree with the AASB’s tentative view that hypothetical market participant buyers would include another NFP entity with similar service delivery objectives? Please provide your reasons.*

The ABS partly disagrees with the AASB’s tentative view.

A hypothetical market participant could include another NFP entity with similar service delivery objectives, but there could also be circumstances where another NFP entity with similar objectives does not exist.

*AASB SMC 3 In respect of current value measurement of operational assets, do you agree with:*

- (a) the IPSASB’s views that fair value is inappropriate because:*
  - (i) the ‘highest and best use’ concept is generally inappropriate for NFP public sector entities; and*
  - (ii) the ‘maximise the use of market participant data’ concept is generally inappropriate for NFP public sector entities; or*
- (b) the AASB’s tentative views to date that fair value is appropriate because the ‘highest and best use’ and ‘maximise the use of market participant data’ concepts should be retained for NFP entities?*

*Please provide your reasons.*

The ABS agrees with the AASB’s tentative view.

As stated above, the ABS is not supportive of any movement away from fair value, as this is the valuation basis most consistent with the GFS principle of market valuation.

*AASB SMC 4 In respect of fair value, do you agree with the AASB’s tentative view that the ‘financially feasible use’ aspect of the asset’s highest and best use should not be applicable to measuring restricted operational assets of NFP entities when an equivalent restricted asset is not obtainable in the marketplace for a price supported by observable market evidence? Please provide your reasons.*

The ABS has no comment on this question.

**Topic B: Definition of ‘current operational value’**

*AASB SMC 5 Do you agree with the IPSASB’s proposed definition of ‘current operational value’ or the alternative definition stated in paragraph AV3 of ED 76 (quoted above)? If you disagree with both definitions, do you have suggestions for another definition of ‘current operational value’? In answering this question, please indicate whether you consider that the definition of ‘current operational value’ should:*

- (a) clearly reflect the service potential of operational assets; and*
- (b) focus on the cost of replacing the asset’s service potential?*

*Please provide reasons for your views.*

The ABS disagrees with the IPSASB’s proposed or alternative definition of ‘current operational value’.

As stated earlier, the ABS is not supportive of any movement away from fair value, as that is the valuation basis most consistent with the GFS principle of market valuation.

**Topic C: Measurement techniques for estimating the current operational value of an operational asset: relevance of using the income approach**

*AASB SMC 6 Do you agree with:*

- (a) the IPSASB’s proposal in ED 77 that the income approach can be an appropriate measurement technique in certain circumstances to estimate the current operational value of an operational asset (paragraphs B24 and B38); or*
- (b) the alternative view documented in ED 77 that the income approach would be inappropriate for estimating an operational asset’s current operational value because current operational value should focus on the cost to replace the service potential embodied in the asset (paragraphs AV5–AV12)?*

*Please provide reasons for your view.*

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.

**Topic D: Measuring the current value of an operational asset based on its current use**

*AASB SMC 7 In respect of measuring the current value of an operational asset, do you agree with:*

- (a) the IPSASB’s proposal that the asset’s current operational value should be measured based on its current use, disregarding potential alternative uses and any other characteristics of the asset that could maximise its market value; or*
- (b) extending application of the AASB’s tentative view (that the fair value of an operational asset should take into account its reinvestment potential), to apply to the measurement of either the asset’s fair value or current operational value?*

*Please provide your reasons.*

The ABS disagrees with both the IPSASB’s proposal and the AASB’s tentative view.

When measuring the value of an asset, all characteristics of the asset should be taken into account, if market participants would take those same characteristics into account when pricing the asset.

Governments are required to provide specific services to the public, primarily on a non-market basis. This imposes restrictions on the use and disposal of assets in the public sector. Restrictions are therefore relevant characteristics to consider when valuing an asset at a given point in time, until such restrictions are lifted.

**Topic E: Measuring the current value of restricted operational assets**

*AASB SMC 8 In respect of restricted operational assets, if an equivalent restricted asset is obtainable in the marketplace, do you agree with the IPSASB’s proposal in ED 77 (and the AASB’s tentative view) that the current*

*value of such restricted operational assets should be measured based on the available market evidence for the equivalent restricted asset? If you disagree, do you have suggestions for an alternative way to measure the current value of such restricted operational assets? Please provide your reasons.*

The ABS agrees with the IPSASB's proposal and the AASB's tentative view, if the market evidence reflects the fair value of the asset.

*AASB SMC 9 In respect of restricted operational assets, if an equivalent restricted asset is not obtainable in the marketplace, do you agree with the IPSASB's proposal in ED 77 (and the AASB's tentative view) that the current value of such restricted operational assets should not be lower than the current value of an equivalent unrestricted asset? If you disagree, do you have suggestions for an alternative way to measure the current value of such restricted operational assets? Please provide your reasons.*

The ABS disagrees with the IPSASB's proposal and the AASB's tentative view.

This proposal does not fit with the principles of either market valuation or fair valuation.

Conceptually an asset with restricted use is not equivalent to a similar asset without restrictions and therefore should not have a comparable valuation.

*AASB SMC 10 Would your answer to AASB SMC 9 (for restricted operational assets generally) be different in respect of measuring the current value of restricted land for which equivalent restricted land is not obtainable in the marketplace? Please provide your reasons.*

The ABS response to AASB SMC 9 would not be different for the reasons stated above.

#### **Topic F: Assumed location of an operational asset used to measure its current value**

*AASB SMC 11 Do you agree with the IPSASB's proposals in ED 77 (and the AASB's tentative view in the context of fair value) that an asset's current value assumes that the entity will continue to meet its service delivery objectives from the same location in which the existing asset is situated or used? Please provide your reasons.*

The ABS agrees with the IPSASB's proposals and the AASB's tentative view.

Consistent with AASB 13, when measuring fair value 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 location of the asset.

#### **Topic G: Nature of the component costs to include when considering the cost of a modern equivalent asset**

*AASB SMC 12 When estimating the cost of a modern equivalent asset to measure the current value of an operational asset, do you agree with:*

- (a) the IPSASB's proposals in ED 77 that the cost of a modern equivalent asset may in some circumstances exclude certain costs (paragraph B35); or*
- (b) the AASB's tentative view that all necessary costs intrinsically linked to acquiring or replacing an asset at the measurement date should be included?*

*Please provide your reasons, including explaining how your preferred treatment relates to the objective of the measurement basis adopted.*

The ABS has no comment on this question.

#### **Topic H: Whether borrowing costs should be included when considering the cost of a modern equivalent asset**

*AASB SMC 13 In respect of measuring the modern equivalent asset as part of the estimation of an operational asset's current value, do you agree with:*

- (a) the IPSASB's proposal in ED 77 that if an entity does not capitalise borrowing costs in accordance with its accounting policy, the entity should disregard any financing costs (paragraph B35(a)); or*
- (b) the AASB's tentative view that the accounting policy choice regarding whether to capitalise borrowing costs into an asset's cost on initial recognition is irrelevant to how those costs should be treated when measuring the current value of the asset?*

*Please provide your reasons.*

The ABS has no comment on this question.

### **Topic I: Consideration of surplus capacity and economic obsolescence**

*AASB SMC 14 Do you agree with the IPSASB's proposal in ED 77 that the current operational value of an operational asset should assume the asset is used to its full capacity, subject to any tests for impairment (paragraph B11)? Please provide your reasons.*

The ABS has no comment on this question.

*AASB SMC 15 Do you consider the guidance in ED 77 to be sufficiently clear in distinguishing whether a loss of utility of an asset should be treated as:*

- (a) surplus capacity, as described in paragraphs B10 and B11 (which is not adjusted for when measuring the asset's current operational value); or*
- (b) an indication of economic obsolescence, as described in paragraph B36(c) (which is deducted when measuring the asset's current operational value); or*
- (c) an indication of impairment?*

*Please provide your reasons.*

The ABS has no comment on this question.

*AASB SMC 16 Do you agree with the Alternative View in paragraph AV17 of ED 77 that, when an asset includes surplus capacity that is severable from the asset and surplus to operating requirements:*

- (a) the unit of account for the asset's measurement should be bifurcated; and*
- (b) the severable part of the asset should be classified and measured as an asset held for its financial capacity (i.e. with its current value consequently measured at fair value instead of current operational value under the proposals in ED 76 and ED 77)?*

*Please provide your reasons.*

The ABS has no comment on this question.

### **Topic J: Value in use as a measurement basis identified in the IPSASB's Conceptual Framework**

*AASB SMC 17 Do you agree with the IPSASB's proposal to remove 'value in use' from the list of measurement bases in the IPSASB Conceptual Framework? Please provide your reasons. In answering this question, please have regard to the potential implications of the issue addressed by AASB Specific Matter for Comment SMC 15.*

The ABS has no comment on this question.

### **Topic K: Overall comments on the IPSASB's proposed current operational value measurement basis**

*AASB SMC 18 For NFP entities in Australia, do you support measuring the current value of restricted operational assets using:*

- (a) the IPSASB's proposed current operational value measurement basis; or*
- (b) fair value as currently applied under AASB 13; or*
- (c) fair value incorporating the AASB's tentative views; or*
- (d) another measurement basis (please provide details)?*

*Please provide your reasons.*

The ABS supports (b), measuring the current value of restricted operational assets using fair value as currently applied under AASB 13, based on the comments noted above.

*AASB SMC 19 For NFP entities in Australia, do you support measuring the current value of unrestricted operational assets using:*

- (a) the IPSASB's proposed current operational value measurement basis; or*
- (b) fair value as currently applied under AASB 13; or*
- (c) fair value incorporating the AASB's tentative views; or*
- (d) another measurement basis (please provide details)?*

*Please provide your reasons.*

The ABS supports (b), measuring the current value of unrestricted operational assets using fair value as currently applied under AASB 13, based on the comments noted above.

*AASB SMC 20 Unless already provided in response to the above AASB SMCs, please provide an indication of the likely costs and benefits (quantitative and qualitative) of the IPSASB's proposed current operational value measurement basis relative to:*

- (a) fair value as currently applied under AASB 13; and*
- (b) fair value incorporating the AASB's tentative views.*

*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 IPSASB's proposed current operational value measurement basis relative to fair value (under current practice and/or incorporating the AASB's tentative views).*

In terms of the impact to the ABS, the existing fair value approach as currently applied under AASB 13 (a) is the lowest cost and carries the highest benefit. Any change to the existing approach 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.

*AASB SMC 21 Unless already provided in response to the above AASB SMCs, please provide an explanation of whether you consider, overall, that the IPSASB's proposed current operational value measurement basis would:*

- (a) create any auditing or assurance challenges;*
- (b) result in financial statements that would be useful to users; and*
- (c) be in the best interests of the Australian economy.*

a) The ABS is not positioned to comment on audit or assurance challenges.

b) The ABS does not believe that IPSASBs proposed measurement basis would make financial statements more useful than they currently are under existing standards.

c) The ABS views the current measurement basis is in the best interests of measuring the Australian economy. The ABS has no comment on whether the proposed current operational value measurement basis is in the best interests of the Australian economy.

*AASB SMC 22 Are there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the IPSASB's proposed current operational value measurement basis, including Government Finance Statistics (GFS) implications? Please include an explanation in your response.*

If the IPSASB proposals were to proceed and be implemented in Australia it is expected that the ABS would still maintain a requirement for GFS data providers to provide valuations in line with current practices and standards. This would likely require data providers to maintain two sets of accounts and would decrease harmonisation between GFS and GAAP.

### **Section 3: AASB General Matters for Comment (AASB GMC)**

*The AASB would also particularly value comments on the following general matters in respect of other aspects of the IPSASB's proposals in ED 76 and ED 77, excluding the proposed current operational value measurement basis*

*addressed in the AASB SMCs above. If other proposals in ED 76 and ED 77 (i.e. proposals and guidance on the Measurement chapter of the IPSASB Conceptual Framework, historical cost and cost of fulfilment) were to be adopted for Australian NFP entities, please indicate (providing your reasons):*

*AASB GMC 1 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the IPSASB's proposals, including Government Finance Statistics (GFS) implications?*

If the IPSASB proposals were to proceed and be implemented in Australia it is expected that the ABS would still maintain a requirement for GFS data providers to provide valuations in line with current practices and standards.

*AASB GMC 2 Whether the proposals would create any auditing or assurance challenges?*

The ABS is not positioned to comment on audit or assurance challenges.

*AASB GMC 3 Whether, overall, the IPSASB's proposals would result in financial statements that would be useful to users?*

The ABS does not believe the IPSASB proposals would make financial statements more useful than they currently are under existing standards.

*AASB GMC 4 Whether the IPSASB's proposals would be in the best interests of the Australian economy?*

The ABS views that the current standard settings are in the best interests of measuring the Australian economy. The ABS has no comment on whether the IPSASB's proposals are in the best interests of the Australian economy.

*AASB GMC 5 Unless already provided in response to the AASB Specific Matters for Comment 1–22 and/or general matters for comment 1–4 above, the costs and benefits of the IPSASB's proposals relative to the current Australian measurement requirements for NFP entities, 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 IPSASB's proposals relative to the existing Australian requirements.*

The ABS is unable to provide a quantitative estimate but it is expected that the ABS position noted against AASB GMC 1 would carry a significant cost for jurisdictions as they will need to prepare two sets of valuations for reporting purposes.