Australian Government
Australian Accounting Standards Board

Fair Value Measurement for Not-for-Profit Entities

Project summary

The objective of this project is to address issues and concerns raised by public sector constituents regarding the application of AASB 13 *Fair Value Measurement* by not-for-profit (NFP) public sector entities.

In October 2022, the AASB issued for comment the Fatal-Flaw Review (FFR) draft version of a proposed amending Standard AASB 2022-X *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* to propose modifying AASB 13 for application by NFP public sector entities. The AASB is expected to consider feedback received on the FFR draft Standard at its December 2022 meeting.

Project contacts

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Project priority: Medium

Issued consultation documents

- Fatal-Flaw Review draft version of proposed Standard AASB 2022-X *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* (October 2022)
- ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* (March 2022)
- ITC 45 Request for Comment on IPSASB Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7*, Measurement of Assets and Liabilities in Financial Statements and ED 77 *Measurement* (May 2021)

Project status

- Issued FFR draft version of proposed Standard for comment

AASB outreach

- Informal targeted outreach conducted in 2016, 2019–2021
- AASB Fair Value Project Advisory Panel meetings
- Virtual outreach event on ITC 45
- Virtual outreach events on ED 320

Board deliberations

- AASB Action Alert Update and Board Papers

Latest project news

Date	News
21 September 2022	September 2022 Action Alert
23-24 February 2022	February 2022 Action Alert
10–11 November 2021	November 2021 Action Alert
8–9 September 2021	September 2021 Action Alert

Last updated: **13 October 2022**

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September 2022	The Board considered feedback received on AASB Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* and made the following decisions on the modifications to AASB 13 *Fair Value Measurement* for not-for-profit (NFP) public sector entities for measuring non-financial assets not held primarily for their ability to generate net cash inflows. *Highest and best use* The modifications would: (a) specify that the asset's current use is presumed to be its highest and best use unless it is highly probable that the asset will be sold, distributed or used for an alternative purpose to its current use at the measurement date (for an asset that would be disposed of, the asset's current use is presumed to be its highest and best use unless the asset qualifies as 'held for sale' under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*); and (b) clarify that an asset's use is 'financially feasible' if market participants 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. *Market participant assumptions* Regarding using market participant assumptions to measure such an asset's fair value, including when the cost approach is applied, if both the market selling price of a comparable asset and all other market participant data required to measure the fair value of the asset are not observable, the modifications would require an entity to use its own assumptions as a starting point and to adjust those assumptions if reasonably available information indicates that other market participants would use different data. *Application of the cost approach* When estimating the costs currently required for a market participant buyer to acquire or construct a reference asset when applying the cost approach to measure the fair value of the subject asset, the modifications would require an entity to: (a) assume the reference asset will be acquired or constructed at the subject asset's existing location; and (b) include the following costs (among other costs) in the reference asset's replacement cost if they would need to be incurred upon the hypothetical acquisition or construction of the reference asset at the measurement date, and if data for them are reasonably available: (i) costs required to restore another entity's asset, if the asset that would need restoration existed at the measurement date and would be disturbed in a hypothetical acquisition or construction of the reference asset. However, such costs would be excluded if they relate to restoration of an asset of another entity included in the consolidated group (if any) to which the entity belongs; (ii) other disruption costs that would hypothetically be incurred when acquiring or constructing the reference asset at the measurement date; and

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(iii) if the subject asset is fixed to a parcel of land, and land available in the proximity of the subject asset has features needing removal or remediation that the subject asset does not:

- costs required to prepare the land for the hypothetical construction of the reference asset; and
- costs required to remove and dispose of any unwanted existing structures on the land to make way for the hypothetical construction of the reference asset.

Economic obsolescence

The modifications would also specify that any surplus capacity of the asset that is necessary for stand-by or safety purposes is not identified as representing economic obsolescence.

Finalising the Standard

The Board noted that applying some of the proposed modifications may not be compliant with IFRS 13 *Fair Value Measurement*, but considered that this is justified to reduce the cost for NFP public sector entities in applying AASB 13 to measure this type of non-financial asset.

The Board also confirmed that the amending Standard would:

(a) not mandate the measurement technique to apply for measuring the fair value of specific assets, such as land subject to public-sector-specific restrictions;

(b) apply only to NFP public sector entities; and

(c) apply prospectively for annual periods beginning on or after 1 January 2024, with earlier application permitted.

The Board agreed to issue a Fatal-Flaw Review (FFR) Draft version of the amending Standard for a 30 day comment period. The Board subcommittee is expected to finalise the FFR Draft Standard out of session in mid-October 2022.

8.1 Cover Memo: Fair Value Measurement for Not-for-Profit Entities

8.2 Staff Paper: Scope of the project

8.3 Staff Paper: Highest and best use

8.4 Staff Paper: Market participant assumptions

8.5 Staff Paper: Application of the cost approach

8.6 Staff Paper: Application and due process

8.7 Comment letters received on ED 320

February 2022

After considering stakeholder comments received from targeted outreach in December 2021–January 2022, the Board decided to issue an Exposure Draft that will propose adding authoritative implementation guidance and illustrative examples to AASB 13 *Fair Value Measurement* for application by not-for-profit (NFP) public sector entities.

The proposed implementation guidance would, in respect of fair value measurement of non-financial assets not held primarily for their ability to generate net cash inflows:

(a) clarify the circumstances in which an entity is permitted to use its own assumptions;

(b) regarding the highest and best use of such an asset:

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	(i) clarify how the 'financially feasible use' concept in AASB 13 paragraph 28(c) should be applied; and (ii) require that the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted when, and only when, the appropriate level of the entity's management is committed at the measurement date to a plan to locate a buyer of the asset or to use the asset for an alternative purpose; (c) when measuring the current replacement cost of such an asset (applying the cost approach), require an entity to: (i) assume that the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location; (ii) adjust the estimated replacement cost of a reference asset for any differences between the current service capacity and standard of finish of the reference asset and the asset subject to measurement; (iii) assume that the asset presently does not exist and all components of the asset need to be replaced. Therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date are included in the asset's current replacement cost; (iv) exclude from the subject asset's current replacement cost any costs of restoring another entity's assets disrupted upon constructing the subject asset, if that entity is part of the same consolidated group as the holder of the subject asset; and (v) not identify any surplus capacity of the asset that is necessary for stand-by or safety purposes as representing economic obsolescence. The Board decided not to propose guidance for NFP public sector entities regarding whether to include borrowing costs in measuring the current replacement cost of such an asset. The Board proposes that the authoritative implementation guidance would be required to be applied prospectively for annual periods beginning on or after 1 January 2024, with earlier application permitted. The Exposure Draft is expected to be issued in March 2022 for a 90-day comment period. 9.1 Cover Memo: Fair Value Measurement for NFP Entities 9.2 Staff Paper: Market participant assumptions 9.3 Working draft Exposure Draft
November 2021	Subject to considering further views of the Project Advisory Panel, the Board decided to propose in an Exposure Draft the following modifications to AASB 13 *Fair Value Measurement* for measuring the fair value of non-financial assets of not-for-profit (NFP) public sector entities held primarily for their service capacity (i.e. not held primarily for their ability to generate net cash inflows): (a) modifying AASB 13 paragraph 28(c) to propose that a use of such an asset would be financially feasible if it generates a sufficient return that it would be rational for market participants (including NFP public sector entities) to invest in the asset's service capacity – with the meaning of 'sufficient return' to be explained in a NFP public sector entity context;

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	(b) regarding 'specialised assets' (which might be defined following further consideration), including implementation guidance on the assumptions to use in measuring the fair value when a market participant is not readily identifiable, and on the circumstances in which the presumption that the current use of such asset is its highest and best use can be rebutted; (c) when measuring an asset's fair value under the cost approach: (i) assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper site; (ii) assume the asset presently does not exist and all components of the asset need to be replaced. Therefore, all necessary costs intrinsically linked to acquiring or constructing a modern equivalent asset at the measurement date would be included in the asset's current replacement cost; (iii) any 'excess capacity' that is temporary or occurs cyclically should not be identified as economic obsolescence; and (iv) economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity. The Board decided not to propose guidance regarding whether to include borrowing costs in measuring the fair value of a self-constructed asset under the cost approach. The Board decided that no standard-setting actions are required under the *AASB Not-for-Profit Entity Standard-Setting Framework* to address other issues related to the measurement of non-financial assets on which individual members of the Panel had suggested guidance. The Board also decided to defer consideration of whether to provide additional guidance on how to measure the fair value of right-of-use assets arising under concessionary leases until after considering the outcome of the concessionary leases part of the IPSASB's current Leases project. The Board plans to consider a draft Exposure Draft at its next meeting. 3.1 Cover Memo 3.2 Staff paper: Draft modifications to AASB 13 3.3 Staff paper: Other measurement issues on which guidance has been requested
September 2021	The Board considered stakeholder feedback on fair value and current operational value (COV) measurement, including comment letters received on AASB Invitation to Comment ITC 45. Further to the decisions made in its August 2021 meeting, the Board decided its submission to the IPSASB on Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7*, Measurement of Assets and Liabilities in Financial Statements and ED 77 *Measurement* should also include the following comments: (a) the Board's tentative views in respect of the cost of a modern equivalent asset used to estimate the fair value of an operational capacity asset under the cost approach, which may be relevant for the IPSASB's proposed guidance on estimating an asset's COV: (i) all necessary costs intrinsically linked to acquiring the asset at the measurement date should be included;

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	(ii) in contrast with the IPSASB's proposal in ED 77 para. B35(a), the accounting policy choice regarding capitalisation of borrowing costs at an asset's initial recognition is irrelevant to how those costs should be treated in subsequent current value measurements of the asset; and (iii) the notional replacement should be assumed to be in the same location as the existing asset is situated or used; (b) ED 77 is unclear regarding whether a loss of utility of an asset should be treated as surplus capacity, an indication of economic obsolescence or an indication of impairment; (c) the Board supports the alignment of IPSAS guidance on fair value with IFRS 13 *Fair Value Measurement*, but the application of fair value should not be limited to non-financial assets held primarily for their financial capacity; (d) the acknowledgement that the income approach would have limited use in estimating an asset's COV should be noted in the IPSAS and not only in the Basis for Conclusions; and (e) in respect of the proposed deletion of certain measurement bases from the IPSASB Conceptual Framework, the Board: (i) supports deletion of market value upon the inclusion of fair value; and (ii) considers better justification is needed for deleting replacement cost and value in use. A subcommittee of the Board will finalise the submission out of session, including considering any further stakeholder feedback on ITC 45. **13.1** Cover Memo **13.2** Staff paper: Summary of stakeholder feedback **13.3** Staff paper: Working draft submission
August 2021	The Board considered a draft submission to the IPSASB on Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7*, Measurement of Assets and Liabilities in Financial Statements and ED 77 *Measurement*, primarily regarding the core principles of the proposed current operational value (COV) measurement basis. Subject to considering further feedback on AASB Invitation to Comment ITC 45, the Board decided that its submission to the IPSASB should include the following comments: (a) the IPSASB has not made a convincing case in ED 76 and ED 77 for rejecting fair value as the current value measurement basis for operational capacity assets; (b) ED 76 and ED 77 are unclear whether COV is a measure of the cost required to replace the service potential of an asset or an intrinsic value to the entity of an asset's remaining service potential; (c) the Board recommends that the IPSASB clarifies whether an asset's COV incorporates its residual value; and (d) the selection of the measurement approach under fair value measurement of restricted operational capacity assets should be in accordance with the general principles in IFRS 13 *Fair Value Measurement*, without imposing further constraints.

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	The Board also decided to note in its submission the IASB's explanation of the concepts of 'market participants in a hypothetical transaction' and 'highest and best use' in IFRS 13 as a basis for supporting the general view that fair value is appropriate even for specialised assets of not-for-profit public sector entities, as well as acknowledging that additional guidance has been requested by Australian stakeholders to assist with the application of these concepts. The Board will continue its deliberations on the IPSASB Exposure Drafts at the next meeting. **5.1** Cover Memo **5.2** Staff paper: Working draft submission
June 2021	The Board decided that, subject to feedback on AASB ITC 45, the scope of its submission on IPSASB Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7*, Measurement of Assets and Liabilities in Financial Statements and ED 77 *Measurement* should include its views on: (a) all aspects of the proposed current operational value measurement basis; (b) the IPSASB's rationale why fair value is inappropriate for measuring the current value of operational assets; and (c) the proposed removal of certain measurement bases from the IPSASB Conceptual Framework. The Board also decided its submission should reflect the generally supportive feedback it received from the stakeholders on applying AASB 13 Fair Value Measurement in the Australian public sector, including noting the application issues deliberated by the Board in its Fair Value Measurement for Not-for-Profit Entities project. The Board will continue its deliberations regarding the IPSASB Exposure Drafts at its August and September 2021 meetings. **12.0** Cover Memo: Project plan **12.1** Staff paper: Overview of IPSASB EDs and the scope of the AASB's submission to the IPSASB **12.2** Staff paper: Current value measurement of operational assets
February 2021	The Board decided the general content of the AASB Specific Matters for Comment (SMCs) to be added to the Invitation to Comment (ITC) it will issue in respect of the forthcoming IPSASB Exposure Drafts ED 76 *Conceptual Framework Chapter 7 – Measurement Update* and ED 77 *Measurement*. Those SMCs are primarily to obtain views about the IPSASB's proposed 'current operational value' measurement basis for the current value measurement of assets held for their operational capacity (service potential). They will include specific questions about the costs and benefits for Australian NFP entities of adopting the IPSASB's proposed current operational value measurement basis, compared with the costs and benefits of either: • continuing current practice in applying AASB 13 *Fair Value Measurement*; or • changing current practice if – through due process – the Board's tentative decisions to date in its Fair Value Measurement for NFP Entities project were to come into effect.

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	The ITC will have a 90-day comment period. The Board noted responses to its stakeholder survey about the importance and urgency of the fair value measurement issues that the Board has been deliberating, as well as additional measurement-related topics for which guidance is most promptly needed. The Board decided to seek more information through its processes related to the IASB's Agenda Consultation and the Board's Agenda Consultation for domestic projects regarding: • whether borrowing costs should be included in the measurement of a non-financial asset's current replacement cost; and • other measurement-related topics unrelated to fair value measurement. The Board instructed staff to analyse the additional fair value measurement-related topics raised by survey respondents, initially as input to developing the Board's submission to the IPSASB on ED 76 and ED 77 and subsequently for Board discussion regarding the scope and timing of future work on its Fair Value Measurement for NFP Entities project. 10.1 Staff paper: AASB SMCs to accompany IPSASB EDs relating to Measurement 10.2 Draft AASB ITC document to be issued together with IPSASB EDs 10.3 Staff paper: High-level summary of survey results
November 2020	The Board noted additional feedback from users of public sector entities' financial statements regarding the current value measurement perspective most useful to them, and the potential interim disclosures, in relation to restricted land held primarily for its service capacity. The Board decided to consider the effect of cross-cutting projects of the AASB and international standard-setters, including the IPSASB's Measurement project, before proposing any amendments to AASB 13 *Fair Value Measurement*. The Board decided to respond to the IPSASB on its forthcoming Exposure Drafts, ED 76 *Conceptual Framework – Limited-Scope Update* and ED 77 *Measurement*. The Board intends to add AASB Specific Matters for Comment in exposing the IPSASB Exposure Drafts for comment in Australia. The Board also asked staff to consult with stakeholders who originally requested guidance to assist not-for-profit public sector entities in applying AASB 13 to understand: • whether circumstances and the scope of guidance requested have changed since then (e.g. the extent of diversity in applying AASB 13 in the not-for-profit public sector); and the specific aspects of fair value measurement for which guidance is most promptly needed. 4.1 Staff paper: Future direction of the project 4.2 Staff paper: Summary of feedback from users of public sector entities' financial statements
September 2020	The Board considered stakeholders' feedback on the tentative proposals for additional disclosures by not-for-profit public sector entities in relation to restricted land held primarily for its service capacity. The Board asked staff to present possible options to progress the fair value measurement considerations in respect of such restricted land at its next meeting, including consideration of:

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	• developing staff FAQs to provide guidance for not-for-profit public sector entities in disclosing qualitative information about the methodologies used in measuring such land at fair value; and • prospectively requiring disclosure of the acquisition cost, and the adjustment deducted from cost, for a parcel of land that was acquired during the reporting period where the adjustment to reflect its restricted public-sector-specific use is material. The Board also asked staff to continue consulting with users of public sector entities' financial statements regarding the current value measurement perspective most useful to them to further inform the Board's deliberations. 7.1 Staff paper: Stakeholders' feedback on proposed disclosures about adjustments on restricted land 7.2 Staff paper: Paper for Project Advisory Panel meeting held on 14 August 2020, annotated with summary of feedback received from stakeholders
June 2020	The Board tentatively decided to clarify the limited-scope proposals for additional disclosures by public sector not-for-profit entities in relation to restricted land held primarily for its service capacity: • the proposed disclosure of the amounts of any material adjustments deducted from the current market buying price of equivalent unrestricted land reflecting restrictions imposed on the use of the land for the public-sector-specific purpose of holding the land; • the proposed disclosure would apply regardless of whether the difference between the land's fair value measurement and the current market buying price of equivalent unrestricted land resulted from explicitly adjusting that current market buying price; and • 'equivalent unrestricted land' is a parcel of land that is in the same proximity as the land being measured; capable of providing the same services (or utility) as the parcel of land being measured; and not restricted for the public-sector-specific purpose as that applying to the parcel of land being measured. The Board noted feedback received from stakeholders during staff's initial outreach activities on the proposals, including issues raised regarding the scope and nature of the proposed disclosures. The Board asked staff to consult further with stakeholders about: • the trade-off between information relevance and possible disclosure overload from providing the proposed disclosures at either a class-of-asset level or the level of subclasses of land for which different valuation techniques are used or different rezoning probability adjustments are made; • quantitative information about the significant unobservable inputs used in the fair value measurement resulting in a deduction from the current market buying price of equivalent unrestricted land; and • disclosing the cost, and the adjustment deducted from cost, of a parcel of land that was acquired during the reporting period and incurred a material adjustment to reflect a restricted public-sector-specific purpose imposed on its use.

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	[7.1](#) Staff paper: Disclosures about discounts on restricted land [7.2](#) Staff's proposed draft amendments to AASB 13 – proposed disclosures about discounts on restricted land
April 2020	The Board decided, as an interim step, while it continues deliberation about the fair value measurement of restricted assets and right-of-use assets arising under concessionary leases, to issue a limited-scope Exposure Draft for application by public sector not-for-profit entities. The Exposure Draft would propose the following amendments (including additional guidance) to AASB 13 *Fair Value Measurement* in respect of assets held primarily for their service capacity: (a) in respect of land subject to restrictions, add a requirement to disclose the amounts of any material discounts deducted from the current market buying price of equivalent unrestricted land, including the basis for such discounts; and (b) additional guidance in respect of assets measured at current replacement cost, such as: • the nature of costs included in an asset's current replacement cost; • the assumed location of land forming part of a facility; and • identifying and measuring economic obsolescence. The Board asked staff to consult with public sector stakeholders regarding the proposed disclosures about discounts on restricted land and prepare a draft Exposure Draft for the Board's deliberation at a future meeting. [8.1](#) Presentation slides: Encouraging disclosures about discounts on restricted land as an interim step
March 2020	The Board noted information obtained during staff's consultations with stakeholders since its November 2019 meeting and asked staff to consult further with stakeholders to understand: • the methodologies currently applied in measuring the fair value of restricted land and buildings and how those methodologies relate to the concept of 'service potential' adopted in the AASB *Conceptual Framework*, AASB 136 *Impairment of Assets* and AASB 1059 *Service Concession Arrangements: Grantors*; • when measuring the fair value of restricted land, what the discount to the current market buying price of equivalent (e.g. adjoining) land is intended to represent, and why the same discount is not applied to the current market buying price of any restricted buildings and other improvements on that land; • users' needs in respect of how fair value is measured in the financial statements of public sector not-for-profit entities and the extent of change and associated cost that would be involved in implementing the Board's current tentative proposals; and • the methodologies applied in measuring the current value of restricted assets by public sector entities in other jurisdictions (e.g. in New Zealand and the United Kingdom), and their differences from the methodologies currently applied in Australia. The Board also considered a revised draft approach for measuring the fair value of right-of-use assets arising under concessionary leases, which was developed in light of stakeholders' feedback on an initial draft approach. The Board tentatively agreed with the revised draft approach and instructed staff to obtain feedback from the Project Advisory Panel, valuers

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	and other stakeholders on the revised draft approach and report back at a future meeting for Board deliberation. 11.1 Staff paper: Right-of-use assets under concessionary leases and draft ED 11.2 Working draft of Exposure Draft *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Entities Held Primarily for their Service Capacity*
November 2019	The Board decided to include the following proposals in the Exposure Draft that will propose amendments to AASB 13 *Fair Value Measurement* for not-for-profit entities: (c) extend the scope of the ED to include not-for-profit private sector entities; (d) consistent with the Conceptual Framework, assets should be measured at a value faithfully representing their service potential; (e) the fair value of a restricted, non-financial asset that is held for its service potential, in the absence of observable market evidence, should be measured as its current replacement cost without a discount for the effect of the restriction(s). The Board noted that this deemed fair value might not be compliant with IFRS 13. Non-financial assets include right-of-use (ROU) assets under 'concessionary leases' (ie leases with significantly below-market terms and conditions principally to enable the entity to further its objectives); (f) the concept of 'financially feasible' in paragraph 28(c) of AASB 13 should not apply when identifying the highest and best use of non-financial assets held for their service potential and measured at current replacement cost; (g) a rebuttable presumption that the fair value of ROU assets under 'concessionary leases' can be measured reliably, based on the same fundamental principles for fair valuing owned assets; (h) the current replacement cost of land forming part of a facility held for its service potential should be measured by assuming it is replaced in its present location, even if it would be feasible to relocate the facility to a site with cheaper land; and (i) retrospective application, with the mandatory application date two years after issuing the amendments and permitting early application. The Board also anticipates a specific matter for comment regarding the benefits and costs of requiring different fair value measurements of the same asset at different levels of the group in some circumstances. The Board will consider a revised draft Exposure Draft at its next meeting. 6.1 Cover memo: Draft ED 6.2 Working draft of Exposure Draft *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Entities Held for their Service Capacity* (marked up for changes since the June 2019 meeting draft)
June 2019	In relation to its working draft of an Exposure Draft proposing modification and guidance to AASB 13 *Fair Value Measurement* for application by public sector not-for-profit entities, the Board tentatively decided to include the following proposals and explanations: (a) an illustrative example demonstrating that the current replacement cost of the assets composing a facility (eg a road and land under the road, whether reported jointly or separately) includes all necessary costs intrinsically linked to acquiring those assets at the measurement date, because a market participant buyer of the entity's facility would need to incur those costs when it acquires the facility (whether the market participant

buyer acquires the facility from the entity or constructs the facility itself). Each asset's current replacement cost is calculated on the assumption that the asset:

   i. does not presently exist; and
   ii. requires replacing in the asset's current environment, taking into account any make-good costs that must be incurred for surrounding facilities disturbed when the asset is replaced (eg drainage works disturbed when replacing a road). However, this assumption does not preclude reconfiguring an asset to a more optimal configuration upon replacement.

   Consequently, the current replacement cost of an asset (whether reported as part of facility or as a separate asset from the facility—for example, land under roads) would not exclude costs for land or permanent works because the asset is not expected to be replaced. Current replacement cost assumes hypothetical replacement of the asset being measured, and is not limited to costs of replacements actually expected to be incurred in the future;

(b) an illustrative example demonstrating that the current replacement cost of land forming part of a facility held for its service capacity and not primarily for its ability to generate net cash inflows (such as a public hospital or public school) would typically be measured by assuming it is replaced in its present location. However, in the following rare instances, the land's current replacement cost would be measured assuming its replacement in a cheaper alternative location, consistent with a facility's current replacement cost being measured using the optimal configuration of all resources composing that facility:
   i. management is aware and considering whether a facility's service potential can be replaced in a cheaper alternative location of its land component;
   ii. replacing the facility in that cheaper alternative location is feasible, ie both legally permissible and compatible with the entity's operational requirements for that facility (eg relocation could only be assumed if the facility would provide the necessary accessibility of services to beneficiaries);
   iii. the entity can identify the land's feasible alternative location within a reasonable range of estimates (ie there must not exist a number of feasible alternative locations with significantly different market buying prices of the land); and
   iv. the current replacement cost of the facility determined on the basis of that alternative location is not exceeded by the price a market participant buyer of the facility would be prepared to pay to remove the buildings and other improvements from the existing facility's site and then sell the property as a vacant site for an alternative use (if such a course of action is legally permissible).

The Board decided that the illustrative example should also demonstrate that, where land is a component of a facility, it is essential to use consistent assumptions about the highest and best use of each asset comprising that facility; and

(c) an explanation, in the Basis for Conclusions, that an entity's decision regarding whether to include borrowing costs in the current replacement cost of a self-constructed asset:
   i. does not depend on the accounting policy choice made by the entity (under paragraph Aus8.1 of AASB 123 Borrowing Costs) regarding whether to capitalise borrowing costs into the asset's cost on initial recognition; and
   ii. should consider whether a market participant buyer of the asset would include borrowing costs in its pricing decisions about the asset.

The Basis for Conclusions will also note the International Valuation Standards Committee's support for including borrowing costs in the fair value of property, plant and equipment.

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	The Board also redeliberated its tentative decision in April 2019 to propose that, for assets held for their service capacity and not primarily for their ability to generate net cash inflows, their fair value should be determined using the cost approach (ie at current replacement cost). These redeliberations took into account correspondence received from constituents on the Board's tentative decision. The Board did not make any decisions on this issue. The Board will consider a revised draft Exposure Draft at its September 2019 meeting. 6.1 Cover memo: Working draft of Exposure Draft and items for discussion 6.2 Working draft of Exposure Draft *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-cash-generating Assets of Not-for-Profit Public Sector Entities*
April 2019	The Board decided to include the following proposals in an Exposure Draft, proposing modification and guidance to AASB 13 *Fair Value Measurement* for application by public sector not-for-profit entities: (a) modify AASB 13 to state that for assets held for their service capacity and not primarily for their ability to generate net cash inflows, the approach to determine their fair value should be current replacement cost. The Board is of the view that when such assets are legally restricted as to their use or the prices that can be charged for goods or services derived from them, their fair values should not be written down to a market selling price or present value of net cash inflows that is less than their current replacement cost. When such assets can be bought and sold for prices incorporating the effect of the restriction, their current replacement cost would reflect the observable market selling price. This proposed modification is expected to reduce uncertainty and diversity in practice regarding how to apply the principles in AASB 13 and would not necessarily change practice for some not-for-profit public sector entities; (b) include an illustrative example to support the application of AASB 13 paragraph 28(b) regarding legally permissible uses of an asset. The illustrative example would demonstrate that, if a government can rescind a law or regulation restricting the use (or pricing of the use of) an asset and does not require parliamentary approval for that rescission, the fair value measurement of that asset should assume that the restriction would not pass to the market participant buyer. This is the case even if an entity controlled by that government (eg a government agency) is unable itself to rescind the restriction and therefore is required to assume in its own financial statements that the restriction would pass to the market participant buyer. However, the fair value measurement of that asset in the whole-of-government financial statements should be reduced for: i. the risk that the government is unable in practice to rescind the restriction because of, for example, community concerns about the asset's higher and better uses; and ii. the current cost (if any) of rescinding the restriction; and (c) include an illustrative example to support the application of AASB 13 paragraphs B8 and B9 regarding the cost approach. The illustrative example would demonstrate that, when

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	measuring an asset's fair value at its current replacement cost, economic obsolescence should not: i. be identified if the asset has apparent 'excess capacity' that is temporary or occurs cyclically, because such excess capacity is standby capacity forming part of the asset's service potential that is being measured; and ii. be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity. The Board decided to include in the ED a specific matter for comment on whether the proposed guidance should also apply to not-for-profit entities in the private sector. The Board will consider the remaining issues identified in the project plan at its June 2019 meeting, with a view to issuing the ED during the third quarter of 2019. 8.1 Staff Paper: Fair Value Measurement - Public Sector Update
December 2017	The Board decided issues previously flagged by public sector entities when applying AASB 13 Fair Value Measurement to be addressed by the Fair Value Measurement Project will be: • restrictions on assets • "Highest and best use" concept • when to use the different valuation approaches • implementation guidance for current replacement cost and why in practice there is little or no • difference to depreciated replacement cost • obsolescence • disclosures • interaction of AASB 13 with other Standards • repurchased internally generated intangible assets. The Board approved the proposed project timeline, but noted that FAQ guidance on the accounting treatment of peppercorn leases should be expedited. Developments in international fair value measurement projects will be monitored. 7.1 Staff Paper: Fair Value Measurement in the Public Sector
May 2017	The Board decided to continue work on key projects on its existing work program, noting the need to accelerate progress on its Australian Reporting Framework project as a priority over the 2017-2019 period. At this meeting, the Board also considered possible topics where there may be opportunity to improve reporting and decided to add projects to its 2017-2019 work program to: (a) clarify the application of AASB 13 Fair Value Measurement to not-for-profit public sector entities regarding obsolescence, restrictions and disclosures; … 3.1 Staff Paper: Project plan – AASB 13 for public sector entities