



Project:	Fair Value Measurement for Not-For-Profit Entities	Meeting:	February 2022 (M185)
Topic:	Draft Exposure Draft	Date of this paper:	7 February 2022
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		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Drafting Exposure Draft

Objective of this agenda item

1. The objective of this agenda item is for the Board to **decide** the content of its forthcoming Exposure Draft (ED) that would propose not-for-profit (NFP) public-sector-specific modifications to AASB 13 *Fair Value Measurement* regarding the fair value measurement of non-financial assets that are not held primarily for their ability to generate net cash inflows.

Background and reasons for bringing this agenda item to the Board

2. At its November 2021 meeting, subject to considering further views of the Project Advisory Panel (the Panel), the Board provided preliminary feedback to staff on a staff paper ([Agenda Paper 3.2](#) for the November 2021 meeting) that included draft implementation guidance on:¹
 - (a) identifying the market participant assumptions for, and highest and best use of, specialised assets; and
 - (b) the application of the cost approach.
3. In respect of the topic described in paragraph 2(a), the Board broadly agreed to consider providing guidance regarding specialised assets. However, the Board commented that:
 - (a) the term ‘specialised assets’ would need to be clearly explained in the ED; and
 - (b) it would be important to field test the ‘specialised assets’ description with the Panel.
4. In respect of the topic described in paragraph 2(b), other than in respect of borrowing costs, the Board broadly agreed with the staff proposals.
5. Staff undertook targeted outreach in December 2021–January 2022 regarding the draft modifications to AASB 13 in [Agenda Paper 3.2](#) for the November 2021 meeting. Stakeholder feedback and staff’s recommended changes to the draft ED’s proposed implementation guidance are discussed in:
 - (a) Agenda Paper 9.2 – in relation to market participant assumptions; and

1 The project summary for the FVM project is available [here](#).

- (b) Agenda Paper 9.3 – in relation to the application of the cost approach.
6. Agenda Paper 9.3 is a working draft ED annotated with staff notes and questions for Board members. It addresses comments from Board members at the November 2021 meeting and stakeholder feedback received through the targeted outreach.
 7. At the February 2022 meeting, staff ask the Board to consider the staff’s recommended approach to providing guidance regarding market participant assumptions in Agenda Paper 9.2, and the working draft ED (Agenda Paper 9.3) and decide the content of the ED.

Summary of staff recommended changes to the implementation guidance proposed in the draft ED

8. The following table summarises the key changes staff recommend making to the implementation guidance proposed in the draft ED, compared with the draft guidance contained in [Agenda Paper 3.2](#) for the November 2021 meeting.

Topic	Key proposals suggested in Agenda Paper 3.2 for the November 2021 meeting	Suggested changes reflected in Agenda Paper 9.3 for this meeting
Market participant assumptions to use in fair value measurements (Discussed in Agenda Paper 9.2 for this meeting)	Based on whether an asset is: (a) specialised; and (b) a market participant other than the holder of the asset is readily identifiable.	Instead of basing guidance on whether an asset is specialised, proposing guidance to clarify the application of the concept of “maximising the use of relevant observable inputs and minimising the use of unobservable inputs” in AASB 13 paragraph 61.
The ‘financially feasible use’ aspect of highest and best use	Proposed amending AASB 13 paragraph 28(c).	Instead of amending AASB 13 paragraph 28(c), add implementation guidance to explain how the ‘financially feasible use’ concept applies to NFP public sector entities.
<i>Application of the cost approach:</i>		
Borrowing costs under the cost approach (Also see Agenda Paper 9.2 for this meeting)	For certain specialised assets, the entity’s own borrowing rate can be used to estimate borrowing costs.	Specific guidance regarding borrowing costs should not be proposed. This is because the proposed guidance regarding market participant assumptions to use for fair value measurement would be sufficient in identifying the assumptions to use when estimating borrowing costs, if those costs are included in an asset’s current replacement cost (CRC).

Topic	Key proposals suggested in Agenda Paper 3.2 for the November 2021 meeting	Suggested changes reflected in Agenda Paper 9.3 for this meeting
Nature of component costs to include in an asset's CRC	All necessary costs intrinsically linked to acquiring the asset at the measurement date should be included in an asset's CRC, which would include any costs required to restore another entity's asset disturbed during the hypothetical replacement of the asset subject to measurement.	Such restoration costs should only be included in an asset's CRC if they relate to an asset of an entity outside the consolidated group to which the holder of the asset subject to measurement belongs.
Assumed location of an asset measured under the cost approach	Assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location.	No suggested changes to the November 2021 draft proposals.
Economic obsolescence under the cost approach	Economic obsolescence should not be identified if there is <u>more than an insignificant chance</u> that future increases in the demand for its services will largely eliminate that overcapacity within the foreseeable future.	Remove probability threshold from the draft guidance so that economic obsolescence should not be identified as an asset for any 'surplus capacity' necessary for stand-by or safety purposes, even if it is seldom, or never, actively utilised.

9. The Preface section of the working draft ED, under the "Main requirements" heading, summarises the staff recommendations (page 9 of Agenda Paper 9.3).

Attachments

10. Papers for this agenda item are:
- (a) Agenda Paper 9.2: Draft modifications to AASB 13 – Market participant assumptions
 - (b) Agenda Paper 9.3: Working draft Exposure Draft
 - (c) Agenda Paper 9.4: Minutes of Panel meeting held on 1 December 2021 (in supplementary folder)
 - (d) Agenda Paper 9.5: Staff paper dated 16 December 2021 used in targeted outreach (in supplementary folder).

Proposed timeline

11. The following table contains a proposed project timeline for the Board’s consideration.

Meeting / Deliverable	Project Milestones
March 2022	The Board or the Board subcommittee approve the ED out of session. Issue the ED by 31 March 2022, with a 90-day comment period.
April – June 2022	Outreach to stakeholders regarding the ED.
July – August 2022	Staff to consider stakeholder feedback on ED.
21–22 September 2022: Board meeting	Board to consider: 1. stakeholder feedback on the ED; and 2. any staff-recommended changes to the proposals in response to stakeholder feedback.
3 November 2022: Board meeting	Board to consider a draft version of the amending Standard.
14–15 December 2022: Board meeting	Board to vote on the ballot draft amending Standard.
December 2022	Issue final Standard.

Questions for Board members

Q1: Do Board members agree for the Board or the Board subcommittee to approve the ED out of session?

Q2: Do Board members agree with the 90-day comment period?