

29 June 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Dr Kendall

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

Thank you for the opportunity to comment on ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*.

AASB 13 *Fair Value Measurement* is a principled based standard that can be complex to apply with divergent practices in the not-for-profit sector. ED 320 proposes to provide implementation guidance to address the divergent practices specifically for NFP public sector entities and seeks comments (in Question 1) on whether the guidance should be applicable for NFP private sector entities.

IPA's members predominately service small business or work in the small business and small and medium enterprise (SME) sectors, including those in the NFP private sector. Given ED 320 covers issues that are specific to the NFP public sector entities, we have confined our comments to the scope and overall observations of the ED in the event that the scope extends to that of the NFP private sector.

1. **Overall** – IPA supports the majority of the AASB's proposals in providing implementation guidance in applying the principles of AASB 13 in measuring the fair value of non-financial assets, noting the comments to the specific proposals in the paragraphs below.
2. **Scope** – the Basis of Conclusion provides the reasons for undertaking the fair value measurement project (ie ED 320) for the NFP public sector, which stems from stakeholder feedback/request on providing guidance. Whilst IPA acknowledges that the feedback may be predominately from the NFP public sector, we are of the view that the principles of fair value and any proposed guidance in their application should be consistent where possible in the NFP sector, irrespective of whether the entities are in the public or private sector. This would be consistent with AASB's standard setting policy of transaction neutrality (paragraph 23)¹ and

¹ Paragraph 23 of "AASB Not-for-Profit Entity Standard-Setting Framework"

"Transaction neutrality means that like transactions and events are accounted for in a like manner by all types of entities, reflecting their economic substance, unless there is a justifiable reason not to do so. This Framework sets out circumstances where it may be appropriate to use a different approach for NFP entities versus for-profit entities ..."

obtaining the benefits of comparability within and across sectors (paragraph 19)². Accordingly, it would be useful for the AASB to:

- Outline the rationale for why the proposed guidance have been confined to the NFP public sector and what the AASB’s plans are for the provision of guidance to the NFP private sector.
 - Consider, in the finalisation of the guidance, whether the proposed guidance in ED 320 can be equally applied to the NFP private sector and where that is not possible, what would the alternative accounting be and the reasons for the differences.
3. **Market participant assumptions** – whilst IPA supports the proposed guidance, we are of the view that care in the drafting of the guidance is required to avoid any unintended consequences of an entity being unable to apply the requirements and auditors to attest to their compliance. For example, the word “all” in paragraph F5 of when “if all relevant information about market participant assumptions” are available or not is too absolute and may be a difficult hurdle for an entity to comply. It would be more effective if the word “all” is replaced with “substantially” or “significantly”.
4. **Highest and best use** – IPA supports guidance on when the presumption of the asset’s current use is its ‘highest and best’ use (HBU) is rebutted. However, we do not agree with the proposals in paragraph F9 that the presumption is rebutted when, and only when, the appropriate level of the entity’s management is committed at the measurement date to plan to sell the asset or to use the asset for an alternative purpose and the examples in paragraph F10 of when the appropriate level of management’s commitment. We are of the view that management’s commitment is too early in evidencing a change in the asset’s HBU. We prefer the approach in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* in determining when an asset is classified as held for sale only if the asset is available for immediate sale and its sale must be highly probable.
5. **Application of the cost approach** – IPA supports additional guidance on the application of the cost approach. However, the guidance must be consistent with principles of the cost approach, being the current replacement cost (CRC) in AASB 13. We are of the view that the explicit nature of including or excluding certain costs in determining CRC in ED 320, are rules-based that may not align with the principles of CRC. That is, AASB 13 states that CRC:
- “reflects the amount...required currently to replace the service capacity of an asset” (paragraph B8) and
 - “From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset...” (paragraph B10) and
 - “The price in the principal (or most advantageous) market used to measure the fair value of the asset ... shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other Australian Accounting Standards. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability. (paragraph 25) and
 - Transaction costs do not include transport costs. If location is a characteristic of the asset (as might be the case, for example, for a commodity), the price in the principal (or most

² Paragraph 19 of “AASB Not-for-Profit Entity Standard-Setting Framework”

To maintain confidence in the Australian economy (including the NFP sector), obtain the benefits of comparability within and across sectors, ... and ensure the costs of complying with Australian Accounting Standards do not outweigh the benefits, this Framework ...”

advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market” (paragraph 26).

A better approach would be to develop guidance that reference/incorporate the above AASB 13 principles when determining which expenditures are likely to be included and excluded in the CRC of an asset and the reasons for the determination.

If you have any queries with respect to our comments or require further information, please contact me at vicki.stylianou@publicaccountants.org.au or on mobile 0419 942 733.

Yours sincerely



Vicki Stylianou
Group Executive, Advocacy & Policy
Institute of Public Accountants

About the IPA

The IPA is one of the professional accounting bodies in Australia with over 47,000 members and students across 80 countries. Approximately three-quarters of our members either work in or are advisers to the small business and SME sectors. Since merging with the Institute of Financial Accountants UK, the IPA Group has become the largest SME and SMP focused accounting body in the world.