

OFFICIAL

The AASB logo is a white hexagon with the letters 'AASB' in bold, black, sans-serif font. It is centered within a larger hexagonal graphic that features a background of financial data, including bar charts, line graphs, and binary code (0s and 1s) in shades of blue and purple.

# Public Sector Property Forum – Innovation and Excellence

## Brisbane

### 27 August 2021

Fridrich Housa, Deputy Technical Director  
Patricia Au, Assistant Senior Manager



Australian Government

Australian Accounting Standards Board

OFFICIAL

# Objective

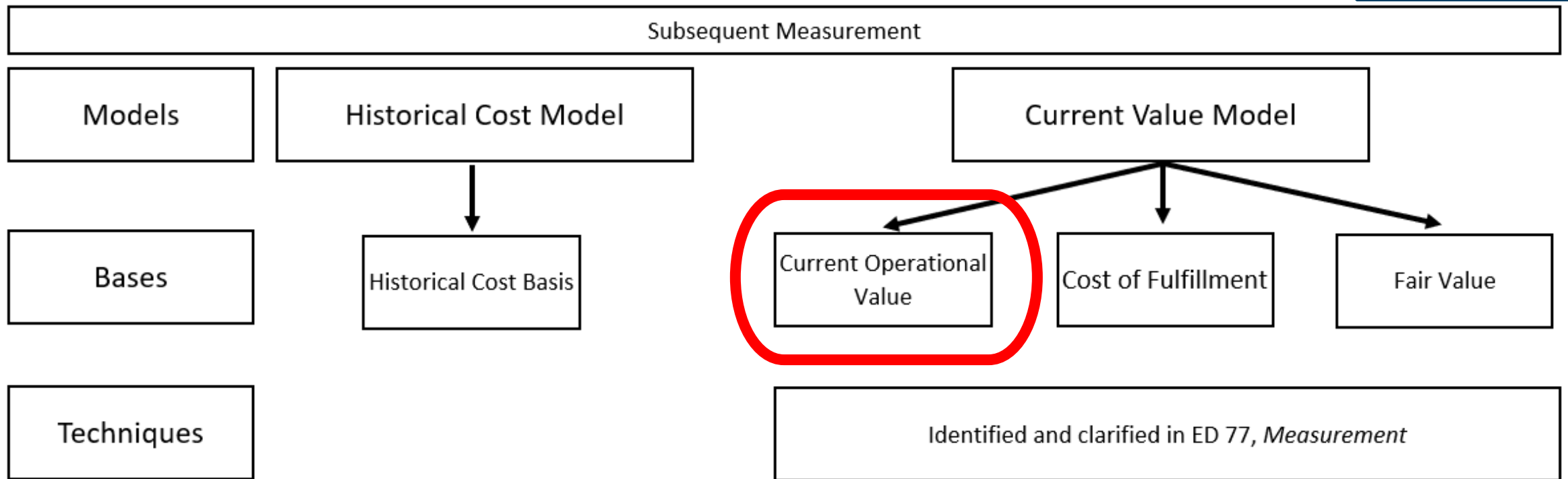
- Provide overview of AASB ITC 45 and for participants to complete survey by Friday 3 September
- Link to survey: <https://www.surveymonkey.com/r/56ZRQTP>

# Agenda

- Overview of proposals in IPSASB ED 76 and ED 77
- Operational capacity assets
- Fair value vs current operational value (COV)
- Application of the cost approach to fair value and COV
- Next steps (including survey) & wrap-up



# Overview of IPSASB's Proposals



Extracted from ED 76 para. 7.6 Diagram 1: The measurement hierarchy for subsequent measurement and the relationship between the three levels



# Operational capacity assets

- **Operational capacity assets** - assets “held primarily for their operational capacity/service potential” ~ “not held primarily for their ability to generate net cash inflows” (AASB 136)
- IPSASB proposal - fair value inappropriate for **operational capacity assets** → a new measurement basis – **current operational value (COV)**
- Presently, Australian public sector entities measure the current value of **all** non-financial assets at **fair value** under AASB 13 *Fair Value Measurement*
- AASB’s **Fair Value Measurement for Not-for-Profit Entities** project (FVM project) → to provide guidance to assist application of AASB 13 in the NFP public sector → particularly on operational capacity assets
- Feedback on the survey would provide useful information to the FVM project



OFFICIAL

# Key aspects of current operational value (compared with fair value)



Australian Government  
Australian Accounting Standards Board

OFFICIAL

# Measurement of operational capacity assets – which basis?

- **Fair value** – The **price that would be received to sell** an asset or paid to transfer a liability in an orderly transaction between **market participants** at the measurement date
- **Current operational value** – The value of an asset used to **achieve the entity's service delivery objectives** at the measurement date
- **Alternative definition of COV** – the **cost to replace the service potential** embodied in an asset at the measurement date

Alternative definition suggested by two IPSASB members to address concerns that ED 76/ED 77 definition of COV is ambiguous (e.g. is it always an entry value and, if not, which other value and when?)



# Measurement perspective

Fair value	COV
Market participant	Entity-specific
Asset's highest and best use → The use of an asset by market participants that would <b>maximise the value of the asset</b> (or the group of assets within which the asset would be used)	Asset's current use → disregards potential alternative uses → disregards other characteristics of the asset that could maximise its value
Exit value	Entry value

- **Measurement techniques:** the market, cost and income approach can be applied to estimate fair value and COV
- Maximise use of relevant observable inputs and minimize use of unobservable inputs





OFFICIAL

# Measuring the current value of restricted assets (applicable to both fair value and COV)



Australian Government  
Australian Accounting Standards Board

OFFICIAL



# Should the current value of land restricted for a public-sector-specific purpose be reduced for the effect of the restriction?

ED 77 para. B14(b) proposes: If an **equivalent restricted asset (eg land) is not obtainable** in the marketplace → apply the cost approach and measure the restricted asset at the market price of an **equivalent unrestricted asset**

View of some Australian stakeholders (FV)	IPSASB proposal (COV)
<p>The fair value of the restricted land <b>should be reduced</b> because <b>market participant buyers would pay less</b> for it than the price of the equivalent unrestricted land (e.g. adjoining unrestricted land)</p>	<p>The COV <b>should not be reduced</b> (compared with the price of equivalent unrestricted land) because the <b>holder of the land or a market participant → needs to pay the (higher) price of unrestricted land</b> to provide the required services (if equivalent restricted land is not obtainable)</p>

# Should the fair value of a specialised building sometimes be measured at zero?

**Example:** A civic centre building of a local council and the land under the building are fully occupied and expected to be used indefinitely. The income generated by the building is negligible.

Assume the land is zoned for commercial use (i.e. there is no current zoning impediment to commercial redevelopment of the site).

Two views expressed by stakeholders about the fair value of the building:

- View 1: Fair value would be zero → a private sector market participant buyer of the land and building would remove the building and redevelop the site
- View 2: Fair value should be based on the building's current replacement cost and not at zero → the highest and best use of the building is as a civic centre because it provides an essential service to the community



OFFICIAL

# Application of the cost approach (applicable to both fair value and COV)



Australian Government  
Australian Accounting Standards Board

OFFICIAL

# Assumed location of asset measured under the cost approach

## IPSASB's proposal (COV) and AASB tentative decision (fair value)

The IPSASB and the AASB consider that an asset's current replacement cost should assume the entity will continue to meet its service delivery objectives from the **same location** in which the asset is currently situated or used.

For example:

Should the replacement of a war memorial site in a city's CBD be assumed to occur at the same location in which the existing asset is situated or in a cheaper location when measuring asset's fair value or COV?



# Nature of the component costs to include when considering the cost of a modern equivalent asset

IPSASB's proposals in ED 77 (COV)	AASB's tentative views (fair value)
<p>The cost of a modern equivalent asset may in some circumstances <b>exclude certain costs</b>, such as:</p> <ul style="list-style-type: none"> <li>• Additional costs arising from extending an existing property</li> <li>• Contract variations</li> <li>• Planning changes</li> </ul> <p>An overarching principle is not stated for which costs to include.</p>	<p>The current replacement cost of an asset (e.g., a self-constructed asset) <b>includes all necessary costs intrinsically linked to acquiring the asset</b> at the measurement date</p> <ul style="list-style-type: none"> <li>• Assumes the asset presently does not exist (i.e. hypothetical replacement)</li> <li>• Takes into account any make-good costs that must be incurred for disrupting surrounding assets of another entity when the entity's asset is replaced</li> </ul>



# Should financing costs be included when measuring the current replacement cost of a modern equivalent asset?

OFFICIAL

## IPSASB's proposal in ED 77 (COV)

If an entity elected **not to capitalise borrowing costs** when initially recognising the operational capacity asset → **disregard any financing costs** when measuring a modern equivalent asset as part of estimating the asset's current value

## AASB's tentative views (fair value)

- The capitalisation of costs on initial recognition and measurement of current value are fundamentally different processes  
→ no presumption that the treatment of borrowing costs should be consistent for both
- NFP entity should consider whether a market participant buyer of the asset would include financing costs in its pricing decisions about the asset

OFFICIAL





# Useful links and next steps

Comments on [ITC 45](#) to AASB closed on 3 August 2021

→ Complete survey by **Friday 3 September**  
<https://www.surveymonkey.com/r/56ZRQTP>

→ AASB Board will continue its deliberations regarding the IPSASB Exposure Drafts at September 2021 meeting

IPSASB [ED 76](#) and [ED 77](#)

→ Comments due to IPSASB by 25 October 2021

→ AASB Board will begin considering implications of feedback from ITC 45 on its [FVM project](#) at its November 2021 meeting



# AASB Resources



- Staff papers and research reports



- Hot Topics – guidance and reference material on the latest developments in standard setting



- YouTube channel – view AASB webinars & other recordings

# Getting Involved

Pronouncements

- ✓ identify Standards or Interpretations applicable to a reporting period

News & Alerts

- ✓ news alerts & media releases
- ✓ weekly newsletter

Outreach Events

- ✓ forums, roundtables, webcasts
- ✓ international guests & key experts

Work Program & Project Summaries

- ✓ the latest developments on AASB projects

Work in Progress

- ✓ see Exposure Drafts & AASB submissions

OFFICIAL



Sign up for  
our newsletter!

**AASB**

# Thank You



Patricia Au

Fridrich Housa



+61 3 9617 7621

+61 3 9617 7618



pau@asb.gov.au

fhousa@asb.gov.au



www.asb.gov.au



**Linked in**



Australian Government

Australian Accounting Standards Board

Disclaimer This presentation provides personal views of the presenter and does not necessarily represent the views of the AASB or other AASB staff. Its contents are for general information only and do not constitute advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this presentation. This presentation is not to be reproduced, distributed or referred to in a public document without the express prior approval of AASB staff.

OFFICIAL