

30 July 2021

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

Produced by the Specialist Government and Statutory Assets Working Group,
a subcommittee of the API Standards Steering Committee

The API would like to thank all the members of the Specialist Government and Statutory Assets Working Group for their contributions, knowledge and insights which formed the basis of the APIs responses and comments.

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Introduction:

The API through the work of the Standards Steering Committee and specialist working groups provides the following response to the request from the AASB for invitation to comment on the IPSASB Exposure Drafts 76 and 77, and the AASB specific matters for comment questions.

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 current practice in Australia in applying fair value is maintained)?

Response:

The API agree with option (b), the AASB's view, that Fair Value is still appropriate and should be maintained.

Reasons:

The change of measurement application has the potential to derive variance in from the current carrying values including the potential to overstate the assets value without recognising asset restrictions.

IFRS/AASB 13 provides a conceptually sound approach to measuring Fair Value, based on exit price, and then requiring valuers to apply valuation approaches which can include cost, market, or income approach. All methodologies should derive Fair Value. The API are of the view that Fair Value, based on exit price, provides a consistent measurement basis for all assets including restricted assets in the public sector.

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.

Response:

The API agree with the AASB’s view that a hypothetical market participant buyer would include another NFP entity with similar service delivery objectives.

Reasons:

The NFP entity should still be considered as a potential market participant /purchaser otherwise there may be no market participants, which is impractical.

AASB 13 - Paragraph 21 “Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.”

AASB 13 – Paragraph 22 “Market participants: An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest”

The API agrees with AASB -13 and the requirement to assume a market participant.

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?

Response:

The API agree with option (b), the AASB’s views 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.

The API agrees with AASB-13 paragraphs 27-30.

The API highlights the information contained in:

Paragraph 28 “The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible.”

Paragraph 29 “Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity’s current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.”

Reasons:

There is a significant potential under option (a) to overstate the assets value without recognising restrictions on assets that are physically possible, legally permissible, or financially feasible. Ignoring Highest and Best Use goes against the established standard in AASB 13 and well understood concepts of 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.

Response:

The API agree that all Highest and Best Use issues need to be considered when assessing the appropriate value of Restricted Use Assets.

Reasons:

Fair Value should be based on market evidence and the Highest and Best Use of a site (of the asset) including the concepts contained in AASB 13, paragraph 28 that “the use of an asset that is physically possible, legally permissible and financially feasible” need to be reflected. The Highest and Best Use is the current use and shouldn’t be based on alternative uses, unless there are market or other factors suggesting that a different use would maximise the asset value.

The API agrees that financially feasible requires clarification.

AASB-13 Paragraph 28 (c) “A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use”

The API recognises that most NFP assets do not generate financial returns, however, provide a service for the community (community obligation) such as schools, hospitals, jails, museums, and court houses.

The API recognises that Fair Value is based on observable market evidence, with valuers having regard to comparable sales of similar assets (in some instances whilst not exactly comparable) with adjustments made to provide evidence of Fair Value. The valuer does not need to consider if the asset will generate cash flows in some restricted use of an NFP entity.

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?

Response:

The API considers that the definition of 'Fair Value' as an exit price is appropriate.

Agree with (a)

- The definition should focus on service potential of operational assets. This is essentially the "value" the asset has to the reporting entity because the entity has direct focus on current utility.
- A focus on cost to replace may be appropriate when the asset is new, however an older asset will be prone to obsolescence, as new technology and the requirements of the reporting entity change.
- The definition needs to support the value-based judgements.

Reasons:

A change of measurement application has the potential to derive variance in from the current carrying values including the potential to overstate the assets value without recognising asset restrictions on use. The proposed IPSASB's 'current operational value measurement' requires a set of hypothetical valuation parameters/assumptions on which to undertake financial reporting valuations which seem illogical in the market and require greater subjectivity.

Furthermore, the proposed 'current operational value measurement' it negates the 'in-combination' approach to Highest and Best Use in AABS 13 considered to be a vital aspect in application to government assets and assets subject to restrictive covenants in either the land or improvement asset classes. The proposed IPSASB's "current operational value measurement" has the potential to overstate the Fair Value of assets if valuers are unable/not required to make the necessary value adjustments on an in-combination basis rather than stand-alone value basis.

The API do not consider that the definition of Fair Value should be replaced.

The terminology and definition of Fair Value still holds and should be regarded as the overriding definition.

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)?

Response:

The API agree with option (a) that income approach can be appropriate in some circumstances.

Reasons:

The API are of the view that the income approach based on a capitalisation of market rent would be appropriate in some circumstances, namely where there is an established market. The concern would appear to be that the measurement by income approach may not reflect the remaining service potential of an asset or that the asset may be valued too low (on a market capitalisation approach) and not reflect the remaining service potential of the asset.

There may also be circumstances where the income approach will not assist in determining a Fair Value:

- For example, revenue collected from the gate to a national park can be measured but what assets should they be measured against? What expenses should be included for assessing the net cash flow?
- The income approach in this context is not appropriate, however the information obtained from the measurement of income can assist with the assessment of an asset's (or group of assets) utility and it follows the assessment of the remaining useful life and 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?

Response:

The API agree that option (a) may be appropriate.

(a) 'Current Operational Value' concept may be considered appropriate, but the API do not agree with the proposed measurement of restricted values (ED77, Parra B14).

The API considers the use of 'reinvestment potential' clouds this response.

In the first instance the valuer should undertake the valuation based on the current use if it is the Highest and Best Use. Where the property has a restrictive use, this use may be its only use and as such (a) is the only option.

However, where the current use is not reflecting the Highest and Best Use for the property and that use is not restrictive (i.e a school site that may be zoned Village or a courthouse zoned Commercial) then the valuer needs to address the value based on what that Highest and Best Use may unlock as market value (a school site as a residential development opportunity or a courthouse as commercial offices).

The API agree with the concept offered in option (b).

The concept of Fair Value has regard to the Highest and Best Use. Where the improvements are substantial and have full utility and/or the land has a legal use restricted to the existing use; it is unlikely to be a factor.

Reasons:

The Highest and Best Use concept of Fair Value is appropriate for NFP entity assets.

The API agree with the view 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, because a restricted use asset does not have an alternate use until the entity has declared the asset as surplus. The valuer is unable to consider an alternate use until the entity has declared the asset as surplus

The API agree that the AASB 'Reinvestment Potential' would be applicable to only declared surplus assets and not currently operational assets.

There are circumstances when consideration of Highest and Best Use is an important consideration. Not all specialised improvements are on land that has a restricted use. If a school is on land zoned for a higher use (eg; commercial, retail, medium/high density residential) then this needs to be considered, however the consideration must include the land and any improvements thereon as being part of a single property. A concept, that may be obvious, but is not consistent with accounting standards.

A public school, on residential zoned land, in a well-established suburb may have been first built when the demographic suited its use and there was limited education alternative. Today the demographic has changed, a new private school is preferred, and the property has a market value of \$1 million as a residential development site. The market attributes zero or negative value to the existing school improvements. The total market value is \$1 million.

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.

Response:

The API agree that this is appropriate that where evidence of equivalent restricted asset(s) is obtainable in the marketplace the current value of such restricted operational assets should be measured based on the available market evidence for the equivalent restricted asset.

This is a common approach. Obviously, the valuer/measurer will need to have the skills and resources to make appropriate adjustments for different attributes of the subject assets and the comparable assets.

Reasons:

The API agree if an equivalent restricted asset is obtainable in the marketplace that the current value of such restricted operational assets should be measured based on the available market evidence for the equivalent restricted asset. Available directly comparable evidence should always be utilised in valuation.

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.

Response:

The API disagrees with the concept.

This is outside the valuation process and not consistent with assessing value.

Such a proposal could be misinterpreted as permitting comparison, without adjustments, to commonly traded nearby assets that do not have the same level of land use rights and restrictions.

The value of land is not just the site and location. The bundle of legal rights attached to the land and title are a significant part of the valuation considerations and processes considered by the valuer. Land use instruments such as zoning, development controls, state planning law and purpose clauses (for leasehold land) will have a significant impact on value.

Reasons:

The restrictions need to be appropriately quantified and applied when undertaking a valuation of an encumbered asset with restrictions. It is important that any restrictions are considered regarding the total asset value, not just the restricted use land value. The value of restricted use land is captured in SMC 10 below.

The reasons the API disagrees with IPSDASB's proposal are:

- (a) it is a departure from the hierarchy in AASB 13 and in these circumstances, replaces a principles-based valuation concept.
- (b) Imposes on valuers a 'hard' valuation rule.
- (c) Will in practice lead to similar (identical) assets being measured at significantly different values.
- (d) Will lead to enormous uplifts in value for many assets with a restricted use, where the reported values will not reflect the use of those assets in the foreseeable future, or possibly ever.
- (e) Is not consistent with valuation approaches in similar jurisdictions.
- (f) Would be extremely costly, because the impact will be material and many valuations will need to be fundamentally rescoped.
- (g) Would mean government decisions regarding the use of assets are not reflected in their carrying amount.
- (h) Appears to limit the valuation of assets with legal restrictions to the market approach.
- (i) Will in practice be difficult to apply because the definition of an 'equivalent asset' in paragraphs B15 and B16 of ED 77, means identifying an unrestricted equivalent asset in the market will often not be possible.

Alternative method for restricted operational assets.

The API supports the existing methodology in AASB 13 is considered appropriate.

AASB 13/IFRS 13 provides a principles-based hierarchy, as follows:

1. Sets a single definition of Fair Value, based on an exit price – for that asset.
2. Requires maximising the use of observable inputs over unobservable inputs.
3. Anticipates several techniques can be used to estimate Fair Value, including a combination of techniques.

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.

Response:

The restricted assets Fair Value should be the cost to replace that asset including consideration of what is financially feasible, physically possible, and legally permissible.

Reasons:

It is not the cost to replace a similar asset with a value that is not reflecting the restrictions. Consistently an adjustment is applied to reflect the restriction on use of the land which negates the inclusion of any value reflecting opportunity cost.

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.

Response:

The API agree that an asset's current value assumes that the entity will continue to meet its service delivery objectives from the same location.

Reasons:

An operational asset's current value is a point in time assessment. The fundamental assumption of such a valuation is of a going concern asset in-situ, hence it seems illogical to not assume the continuation of use for service delivery unless advised otherwise which is usually in accordance with *AASB 5 Non-current Assets Held for Sale and Discounted Operations*.

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

Response:

The API agree with option (b).

Reasons:

The API agree with the AASB's view that all necessary costs intrinsically linked to acquiring or replacing an asset at the measurement date should be included.

Replacement costs provided by Quantity Surveyor or similar resource are inclusive of all relevant construction costs and should be relied upon as experts.

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 recognition is irrelevant to how those costs should be treated when measuring the current value of an asset.

Response:

The API agree with option (b).

Reasons:

The API understanding is that this SMC is directed to PPP financing of asset projects. The API agree with the AASB's tentative view that the accounting policy choice regarding whether to capitalise borrowing costs into an asset's cost on recognition is irrelevant to how those costs should be treated when measuring the current value of an asset.

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.

Response:

The API does not agree that the current operational value of an operational asset should be assumed full capacity if that is not reflective of reality.

Reasons:

If the asset is not being used at full capacity, value adjustments are made on the replacement cost applied in accordance with service capacity (if being used at a lower use) and/or an adjustment to the total life/remaining life of an asset.

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.

Response:

The API agree with option (b) and consider that the loss of utility of an asset should be treated as an indication of economic obsolescence. That is the valuer will need to consider functional, physical, and external obsolescence.

The starting point should be at what capacity is the asset operating. If it is not meeting full capacity, what capacity is it at and what is contributing to this reduction in operating capacity?

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)?

Response:

The API do not agree with the alternate view of paragraph AV17 of ED 77.

Reasons:

The surplus capacity should be recorded at its current replacement cost (Fair Value) and only split if declared by the entity as surplus.

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.

Response:

The API do not agree with the IPSASB's proposal to remove 'value in use' from the list of measurement bases as it goes against the current measurement bases.

Reasons:

the proposed removal goes against the current measurement bases utilised and understood by those making measurements and those users of financial reports.

'Value in use' should be retained, as it is easily understood.

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)?

Response:

The API supports option (b) for measuring the current value of restricted operational assets using Fair Value applied under AASB 13.

Reasons:

The AASB 13 'Fair Value' is clearly and easily understood when undertaking the valuation of restricted assets, in that the highest and best use must be considered when making the assessment including whether the current use is the Highest and Best Use being financially feasible, legally permissible, and physically possible.

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)?

Response:

The API supports option(b) for measuring the current value of unrestricted operational assets using Fair Value applied under AASB 13.

Reasons:

The 'Fair Value' applied under AASB 13 is clearly and easily understood when undertaking the valuation of unrestricted assets, with the Highest and Best Use considered including whether the current use is the Highest and Best Use assessing financially feasible, legally permissible, and physically possible.

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).

Response:

The API believes that there may be a substantial cost from the amount of additional work required from valuers as proposed under AASB's tentative views, as a result of all restricted use assets held by NFP entities requiring re-valuation within a single year subject to a completely new valuation basis. It is anticipated that NFP entities will have increased valuation costs due to these proposed changes that the entity would now have to comply with.

Reasons:

The IPSASB Current Operational Values B14 (a) and (b) would result in no requirement for valuers to investigate and assess the market evidence to determine if there are any applicable restricted use sales. The approach would be to simply assume that there are no sales of restricted use properties and simply apply adjoining use values, even if there was a body of evidence to indicate levels of value for restricted uses. This may result in an over-valuation of restricted use properties. Whilst this simplified approach to consider only adjoining market values rather than a wider body of evidence may appear on the surface to save time, there is expected to be additional extra costs and time taken for valuers and preparers of the financial statements in dealing with assurance questions and complying with auditing requirements as a result of adopting a different valuation approach which is likely to result in significant changes in the assessed values of restricted use assets.

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

Response:

the API believes that a change in approach (IPSASB's proposed current operational value measurement basis) may create auditing and assurance challenges and a lot of extra cost and work in updating values to a new basis, particularly where a rolling cycle of values over 4-5 years will create relativity issues. Decisions should be based on consistent and accurate valuations which may not continue under IPSASB's proposed current operational value measurement basis.

Reasons:

- (a) The IPSASB's proposed current operational value measurement basis may result in auditing challenges due to potentially large variations in restricted land values under the existing measurement standards and the proposed measurement basis and would call into question the validity of the methodology used if not adequately supported by market evidence.
- (b) Would not result in financial statements that would be more useful to users because the Fair Value of restricted use assets represented in the financial statements may be overstated if the legal, financial, and physical restrictions are not properly accounted for, and if a theoretical unrestricted value is applied.
- (c) Would not be in the best interests of the Australian economy as there is potential for asset values on restricted use assets to be over-valued and which would not be achievable in the market, bringing into question the accuracy of the valuations and the appropriateness of the methodology applied.

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.

Response:

The API does not set government agenda but does provide feedback when requested or where changes to policy and directions are seen to adversely impact its members.

Reasons:

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

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?

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

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

AASB GMC 4 Whether the IPSASB's proposals would be 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.

Response:

These five General Matters for Consideration appear to be covered in the responses provided to the Specific Matters for Comment

Overall Recommendation(s)

The Specialist Government and Statutory Assets Working Group offer the following responses and reasons in their capacity as specialised Asset Valuers undertaking and managing Asset Registers for statutory clients.

There is no evidence that using measures other than Fair Value would benefit users of public sector financial statements. Such a fundamental departure would undermine the existing framework applied in Australia, effectively creating a 'hybrid' where assets held primarily to generate cash flow are valued at Fair Value and other assets are valued at current operational value. Sector neutrality through the adoption of International Financial Reporting Standards (IFRS) is a major strength that the API and its members do not support a departure from at this time.

As it stands AASB 13 provides a conceptually sound approach to measuring Fair Value, by using a single, easy to understand definition of Fair Value, based on exit price and then requiring preparers use a valuation technique that maximises observable (i.e. unbiased) inputs.

The standard anticipates three valuation approaches that are widely applied by valuers, being cost approach, market approach and income approach. However, whichever approach or technique (methodology) is used in the circumstances, there is a singular exit price for all assets.

API believes that Fair Value derived from each of the three approaches should theoretically be the same. For example, the cost approach and market approach for a specific land parcel should derive the same Fair Value. Therefore, API is of the view that Fair Value, based on exit price, provides a consistent measurement basis for all assets in the public sector.

Yours faithfully,



David Brandon
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Australian Property Institute Ltd



Mark Kay
Chair Standards Steering Committee
Australian Property Institute Ltd
On behalf of
Specialist Government and Statutory
Assets Working Group