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The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
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16 November 2015

Dear Madam

EXPOSURE DRAFT ED 269 *RECOVERABLE AMOUNT OF NON-CASH-GENERATING SPECIALISED ASSETS OF NOT-FOR-PROFIT ENTITIES*

Thank you for the opportunity to comment on the proposals to clarify the measure used for 'value in use' for not-for-profit entities with non-cash-generating specialised assets.

We support the proposals included in the Exposure Draft, however, we have some concerns regarding the application of the 'current replacement cost' approach being applied in practice. Please refer to Appendix 1 for our comments in this regard.

If you have any comments regarding this request, please do not hesitate to contact Sheryl Levine at sheryl.levine@bdo.com.au.

Yours faithfully

BDO Australia Limited

Timothy Kendall

Chairman, National Audit Committee

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APPENDIX 1

Question 1: Whether references to depreciated replacement cost (DRC) as a measure of value in use should be deleted from AASB 136

With AASB 13 *Fair Value Measurement* now referring to the 'cost approach' as one of the widely used permissible valuation techniques, we agree that the references to 'depreciated replacement cost' (DRC) in paragraphs Aus 6.1, Aus 6.2, Aus 32.1 and Aus 32.2 should be deleted.

AASB 136 *Impairment of Assets* defines 'recoverable amount' of an asset as the higher of:

- Fair value less costs of disposal, and
- Value in use.

The above-mentioned 'Aus' paragraphs in AASB 136 *Impairment of Assets* use DRC as a proxy for 'value in use' for specialised, non-cash-generating assets of not-for-profit entities, which, based on the definition of 'value in use' (being the present value of future expected cash flows) would otherwise be Nil or a negligible amount, assuming continued use. Having such a proxy assumes that it is not possible to determine 'fair value less costs of disposal' for such assets.

Deleting these paragraphs means that the recoverable amount for such an asset would be determined as the 'fair value less costs of disposal'.

AASB 13 now permits 'fair value' for non-cash-generating, specialised assets to be determined using the 'cost approach', which is defined in AASB 13 as being 'A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)'.

AASB 13.B9 also refers to the concept of 'depreciated replacement cost' by requiring that 'current replacement cost' (CRC) be adjusted for:

- Physical deterioration
- Functional (technological) obsolescence
- Economic (external) obsolescence.

We believe that retaining the concept of DRC as a proxy for 'value in use' is confusing and these paragraphs should therefore be deleted.

Question 2(a): Whether the proposed paragraph Aus 5.1 clarifies the role of AASB 13 in determining the recoverable amount of primarily non-cash-generating specialised assets of not-for-profit entities generally held for continuing use of their service capacity

If the 'Aus' paragraphs 6.1, 6.2, 32.1 and 32.2 are deleted, we agree that additional paragraph, Aus 5.1 clarifies the role of AASB 13 in determining the recoverable amount of such non-cash-generating assets.

Assuming continued use, 'costs of disposal' are typically negligible and can therefore be ignored when determining 'fair value less costs of disposal' for recoverable amount calculations.

Question 2(b): Whether there are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities (such as GAAP/GFS implications)

While in theory, equating the two concepts of DRC and CRC makes sense, we are not convinced that these two terms are equivalent and interchangeable when applied in practice.

We would like to see evidence that the AASB has researched this, as well as to see rationale to support this determination, i.e. acceptance from the Australian Valuation Standards Board and/or discussion with valuers who do valuations using these methodologies.

We recommend that the AASB state this as part of the amendment to the standard, otherwise we foresee issues in practice when auditing valuation reports that refer to DRC rather than CRC, and clients/auditors having to request that the valuer confirm that DRC = CRC. An example is the Victorian Treasury FRC's reference to valuations for specialised assets being completed under DRC. They do not currently refer to CRC. As such, all Victorian NFP specialised assets would currently have valuations completed under a DRC methodology.

Question 2(c): Whether overall, the proposals would result in financial statements that would be useful to users

We agree.

Question 2(d): Whether the proposals are in the best interests of the Australian economy

We agree.

Question 3: Cost-benefit analysis

Given that DRC calculation is equivalent to fair value determined using the cost approach (and ignoring costs of disposal), we do not consider that these proposals would result in additional or fewer costs of implementation.