Australian Accounting Standards Board
PO Box 204
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Australia

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Exposure Draft ED 269 – Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities

We are pleased to respond, on behalf of PricewaterhouseCoopers (PwC), to the invitation by the Australian Accounting Standards Board (AASB) to comment on the Exposure Draft ED 269, Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities (ED 269).

We support the AASB's proposal in removing the reference to using the depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities under AASB 136 *Impairment of Assets* (AASB 136). Consistent with the AASB's view, we believe that the current reference to DRC may be a source of confusion when compared to the current replacement cost (CRC) under AASB 13 *Fair Value Measurement* (AASB 13). We agree with the AASB that we would expect CRC under AASB 13 to have a value that is materially the same as the DRC defined by AASB 136 for non-cash-generating specialised assets. Therefore to eliminate confusion by preparers of financial statements, we believe that the definition of DRC should be eliminated from AASB 136 and that reference should be made to CRC under AASB 13.

We note in the example in BC14 of the Draft Basis for Conclusions of ED 269 that borrowing costs have been included in the CRC of the self-constructed specialised asset. We understand that current practice in many State Government public sector entities is to exclude the capitalisation of borrowing costs for self-constructed assets in accordance with the established policy of each State. We have observed an extension of this policy into the determination of fair value under AASB 13 using the cost approach (for purposes of revaluation of non-current assets) where borrowing costs are also being excluded. We believe that the AASB should consider whether the specific inclusion of borrowing costs in this example would imply that borrowing costs should be included in the CRC of an asset under the fair value model.

Our answers to the specific question in the Exposure Draft provide more detail on the views expressed above and are outlined below.

Question 1

Whether to delete references to depreciated replacement cost (DRC) as a measure of value in use from AASB 136 (paragraphs 5 – 6 of this Exposure Draft).

We agree that the references to DRC as a measure of value in use should be removed from AASB 136. This will help to reduce any confusion in relation to this term and how it compares to CRC under AASB 13.

We support the justification provided by the AASB in their decision to remove the reference to DRC in AASB 136 and agree that it would be unlikely that DRC, as a measure of value in use of specialised assets that are rarely sold, would be different from CRC as a measure of fair value of such assets.

Question 2

Whether:

(a) the proposed paragraph Aus5.1 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 (paragraph 7 of this Exposure Draft)?

We believe that the proposed wording in paragraph Aus5.1 adequately clarifies the role of AASB 13 in determining the recoverable amount of non-cash-generating specialised assets of not-for-profit entities. Based on our response in question 1, we believe that removing DRC from AASB 136 and referring to CRC under AASB 13 best addresses the issues noted by the AASB.

(b) 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)?

We are not aware of any regulatory or other issues within the Australian environment that would be caused by the implementation of the ED. We believe that the proposed changes to AASB 136 will reduce confusion for financial statement preparers.

(c) overall, the proposals would result in financial statements that would be useful to users?

We believe that the ED will improve the disclosure in financial statements related to the valuation of non-cash-generating specialised assets because it will reduce confusion surrounding the terms, CRC and DRC, which have previously been used interchangeably by preparers of financial statements.

(d) the proposals are in the best interests of the Australian economy?

Overall we believe that changes to the accounting guidance which are proposed in the Exposure Draft would be in the best interests of the Australian economy however, we see the impact on the Australian economy as negligible.

Question 3

Unless already provided in response to specific matters for comment 1 – 2 above, the costs and benefits of the proposals relative to the current requirements, 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 proposals relative to the existing requirements.

We are unable to provide feedback on the specific costs and benefits of the proposals. However, we expect the benefits of the proposals to outweigh any related costs. We do not anticipate that the proposals will increase the costs incurred by preparers of financial statements as it will reduce the need for them to consider two separate valuations, CRC and DRC, when measuring their non-cash-generating specialised assets.

If you have any questions on this letter, please contact me on (02) 8266 0309.

Yours sincerely

S Rugers

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