The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Our ref ED 269 Submission letter - KPMG comments

20 November 2015

Dear Kris

Submission - AASB ED 269 Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities

We are pleased to have the opportunity to comment on ED 269 *Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities* (ED).

We acknowledge the guidance in AASB 13 *Fair Value Measurement* (AASB 13) on the use of the cost approach as a measure of fair value and the use of depreciated replacement cost (DRC) as measure of value in use for primarily non-cash-generating assets under AASB 136 *Impairment of Assets* (AASB 136) is a potential source of confusion. As such we support the Board’s decision to address this issue by deleting DRC as a measure of value in use and providing guidance that the recoverable amount under AASB 136 for such an asset is expected to be materially the same as fair value determined under AASB 13.

Appendix A to this letter comments on the specific questions raised in the ED.

Please contact myself on (02) 9455 9120 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

Kim Heng
Partner

Appendix A

1) Whether to delete references to depreciated replacement cost (DRC) as a measure of value in use from AASB 136

We agree with the AASB proposal to delete references to depreciated replacement cost (DRC) as a measure of value in use for the purposes of determining recoverable amount for impairment testing.

With the clarification that a cost approach may be an appropriate method of measuring fair value in some circumstances (AASB 13 BC.142), the continued reference to DRC as a value in use measure is no longer necessary and its removal will reduce confusion as to whether there is a material difference between DRC and the requirements of AASB 13.

However, we note the basis of conclusion and overall explanation for the change that current replacement cost (CRC) is materially the same as DRC may be confusing to readers given that DRC is defined in AASB 136 as " the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset" and the understanding by certain valuers that CRC is the starting point for calculation of DRC. Therefore, we recommend references be made to the cost approach in AASB 13 rather than generically referred to as CRC.

2) (a) Whether 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 generally agree that Aus 5.1 is helpful in clarifying the role of AASB 13 in determining the recoverable amount of primarily non-cash generating specialised assets. However, we question whether the cost of disposal is typically negligible for such assets as it could be possible that disposal costs are higher when selling a specialised infrastructure asset compared to actively traded assets.

We also recommend supplementary guidance be considered for not-for-profit entities as to the circumstances in which it is appropriate to apply the cost approach model under AASB 13, and when an entity's cost to replace an asset would equal the amount that a market participant would pay to acquire it (AASB 13.BC141), that is when the entity specific assumptions become effectively market participant assumptions.

(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);

Assuming the amendment does not result in any material change in the measurement of recoverable amounts for impairment purposes, we are not aware of any regulatory or other issues that may affect the implementation of the proposals.

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

In our view, the proposals would result in financial statements that would be useful to users, as it will remove confusion as to the interaction of DRC as a method of value in use and a cost approach to the fair value measurement for determining the recoverable amount under AASB 136.

(d) Whether the proposals are in the best interests of the Australian economy; and

For the reasons noted above, we agree the proposals are in the best interests of the Australian economy.

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.

While we do not have an expectation of significant costs and time involved in transitioning to the amendments this Standard, we are unable to comment on any estimated amounts.