

The Institute of Public Accountants
**Submission to the AASB on ED: Fair value
disclosure of not-for-profit public sector entities**

June 2015

08 June 2015

Ms K Peach
The Chairperson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Ms Peach

ED 262 'Fair Value Disclosure of Not-for-Profit Public Sector Entities'

Thank you for the opportunity to comment on the ED 262 'Fair Value Disclosures of Not-for-Profit Public Sector Entities'. The Institute of Public Accountants (IPA) *does not support* the exemption of not-for-profit public sector entities from the disclosure requirements of AASB 13 'Fair Value Measurement' paragraphs 93(d), (f), (h),(i) by the insertion of AASB 13.Aus93.1. We believe that the AASB has erred significantly in principle and process.

The IPA is of the view that after only one year of operation of AASB 13, it is premature to make amendments to the disclosure requirement without allowing practice to stabilise. We would prefer the AASB to monitor practice in relation to the AASB 13 disclosure requirements and, if deemed necessary, provide guidance on their application, including the exercise of professional judgment and the application of materiality to the disclosure requirements.

The AASB provided non-for-profit sector guidance for AASB 10 'Consolidated Financial Statements' and may need do so for AASB 13.

The IPA sees little merit in providing exemptions to a single class of preparers in a purported sector-neutral standard setting environment. We see no reason for a substantive difference in the reporting obligations of public sector not-for-profit entities and those private sector not-for-profit entities. Public sector entities should be held accountable to the same standard as their private sector counterparts.

Furthermore, the IPA is of the opinion in an environment where public sector assets may be sold, leased, or otherwise "structured" to fund public sector spending users (including, taxpayers, ratepayers and parliaments) should be provided with information to enable them to understand the sensitivities of fair values to underlying assumptions to enable them to be appropriately informed in relation to the "sale" or "redeployment" of such assets.

In reaching our conclusions, the IPA has examined the following financial statements for the period to 30 June 2013:

- City of Gold Coast
- Surf Coast Shire Council
- North Sydney Council
- Ku-ring-gai Council
- City of Sydney
- Willoughby City Council, and
- City of Greater Geelong.

We compared the AASB 13 disclosures for these entities with those of Westpac and Macquarie Group. In terms of quantum of disclosures (as measured by pages) all but one of the not-for-profits had comparable or a lesser amount of disclosures. This is notable given the variety of Infrastructure, Property, Plant and Equipment (IPPE) held by the public sector entities which should drive a higher quantum of disclosure.

Our review of the AASB 13 disclosures of the above entities gave rise to a number of other issues the AASB should consider:

1. The diversity in practice of the compliance with the disclosure requirements of AASB 13. In the IPA's opinion, this represents an area in which the AASB should be providing guidance, as the level of disclosures was variable to non-existent in some circumstances.
2. The application of fair value measurement to some classes of IPPE which appears inappropriate, for example, library books. This goes to the issue of whether the requirement to measure all IPPE at fair value is appropriate in all circumstances. Much of the disclosures are driven by this requirement coupled with the absence of observable inputs. The Tier 3 disclosure requirements are driven by the subjective nature of Tier 3 valuation models and the related estimation uncertainty. Rather than amend the disclosure requirements of AASB 13, the requirement to hold all IPPE at fair value should be revisited by the various federal, state and territories' regulatory bodies. The AASB should facilitate such deliberations. The AASB should not be amending disclosure requirements where the inappropriate use of valuation basis is the root cause of the problem.
3. We are concerned with the application of the highest and best use principle of AASB 13. Insufficient disclosures have been made as to ascertain whether current use is highest and best use and the preparers' basis for using current or highest and best use as the measurement basis.

Finally, we are concerned with AASB's apparent rush to finalise these amendments and, in particular, the lack of research into the issue. We do not consider an adverse comment exposure draft to be adequate due process. Regrettably, the amendments and process appear to have the hallmark of 'pandering' to an interest group.

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely



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