



Project:	IPSASB Exposure Drafts on Public Sector Measurement	Meeting:	AASB September 2021 (M183)
Topic:	Current value measurement of operational capacity assets	Date of this paper:	23 August 2021
Contact(s):	Patricia Au pau@asab.gov.au (03) 9617 7621 Fridrich Housa fhousa@asab.gov.au (03) 9617 7618 Jim Paul jpaul@asab.gov.au 0405 838 728	Agenda Item:	13.1
		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Consider comments on ITC 45 and decide comments on IPSASB proposals

Objectives of this agenda item

- The objectives of this agenda item are for the Board to:
 - consider** feedback received on AASB Invitation to Comment ITC 45¹ (Agenda Paper 13.2); and
 - decide** the content of its submission to the IPSASB regarding the following Exposure Drafts (Agenda Paper 13.3):
 - ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*; and
 - ED 77 *Measurement*.

Reasons for bringing this agenda item to the Board

- At its June 2021 meeting, the Board decided that its submission to the IPSASB should respond specifically to SMC 3–5 in ED 76 and SMC 5–9 in ED 77 regarding current value measurement of operational capacity assets.²
- At its August 2021 meeting, the Board (see Item 5 of the draft minutes for that meeting):
 - noted a high-level summary of the feedback on ITC 45 received from the Project Advisory

1 The Board issued AASB ITC 45, [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*](#), to request comments on the IPSASB EDs by 3 August 2021.

2 For ease of reference in this agenda item, staff have used the term ‘operational capacity assets’ as an abbreviation for the phrase used in ED 76 and ED 77 – ‘non-financial assets held for their operational capacity’. This phrase has the same meaning as the following phrase used in AASB Standards (e.g. AASB 136 para. Aus5.1) – non-financial assets of a not-for-profit public sector entity ‘not held primarily for their ability to generate net cash inflows’.

- Panel (the Panel) meeting held on 29 June 2021 and the virtual outreach event held on 6 July 2021 relevant to the topics being discussed at that Board meeting; and
- (b) subject to considering further feedback received on ITC 45 (particularly the comment letters), made tentative decisions about comments to make to the IPSASB regarding the core principles of current operational value (COV).
4. At this meeting, staff ask Board members to:
- (a) consider the five comment letters received on ITC 45, as summarised in Appendix B of Agenda Paper 13.2;
- (b) consider a high-level summary of the feedback received from the 29 June 2021 Panel meeting and the 6 July 2021 virtual outreach event about aspects of COV and some fair value measurement issues yet to be deliberated by the Board in the context of this submission (Appendix C of Agenda Paper 13.2); and
- (c) decide its views regarding the content and drafting of its submission to the IPSASB.
5. Agenda Paper 13.3 is an updated draft submission. It includes draft comments on aspects of COV yet to be deliberated by the Board in the context of this submission (although, in its Fair Value Measurement of Not-for-Profit Entities project (FVM project), the Board has previously deliberated most of those aspects in the context of fair value).³ Staff expect a key focus of this meeting will be for the Board to decide its comments in the submission regarding these aspects of COV.

Papers for this agenda item

6. Papers for this agenda item are:
- Agenda Paper 13.2: Summary of stakeholder feedback
 - Agenda Paper 13.3: Updated draft submission
 - Agenda Paper 13.4: ITC 45 comment letters (in supplementary folder).
7. The comment letters received on ITC 45 (Agenda Paper 13.4) are included in the supplementary folder for the Board's reference. They are from:
- (a) APV Valuers & Asset Management;
- (b) the Australian Property Institute;
- (c) the South Australian Local Government Financial Management Group;
- (d) the Heads of Treasuries Accounting and Reporting Advisory Committee; and
- (e) the Australian Bureau of Statistics.

³ The project summary for the FVM project is available [here](#).

Summary of staff's proposed draft text in the working draft submission

8. The following table provides a high-level summary of staff's proposed draft text for the Board's submission in Agenda Paper 13.3 on aspects of COV not yet discussed by the Board.

SMC/Aspect of COV	Key points in Agenda Paper 13.3
<i>SMC 4 in ED 76</i>	
(a) The IPSASB's proposal to remove value in use as a current value measurement basis in its Conceptual Framework	<p>(a) The Board considers there is merit in retaining value in use as a measurement basis in the IPSASB Conceptual Framework.</p> <p>(b) The IASB has retained value in use as a current value measurement basis for assets in its revised Conceptual Framework. The reasons in the IPSASB EDs to justify the proposed removal of this measurement basis from the IPSASB Conceptual Framework are unconvincing.</p>
<i>SMC 5–6 in ED 77</i>	
(b) Nature of component costs to include in an asset's current replacement cost	<p>(a) Outlines the requests the Board has received from Australian stakeholders to provide guidance regarding the nature of costs to be included in an asset's current replacement cost in the context of fair value measurement.</p> <p>(b) The Board's key tentative view reached in 2019-20 is that the current replacement cost of an asset includes all necessary costs intrinsically linked to acquiring the asset at the measurement date.</p> <p>(c) Recommends that the IPSASB includes general principles in its Measurement IPSAS for how to address these issues.</p>
(c) Whether the current replacement cost of a self-constructed asset should include borrowing costs	<p>(a) Staff do not suggest expressing a Board view about whether borrowing costs should be included in an asset's current replacement cost.</p> <p>(b) Rather, staff's draft text mentions the Board's tentative view reached in 2019-20 that the accounting policy choice concerning capitalisation of borrowing costs at the asset's initial recognition is irrelevant to how those costs should be treated when subsequently measuring the current value of the asset.</p>
(d) Consideration of obsolescence when determining current operational value	<p>Regarding the comments about surplus capacity in paras. AV16–AV17 of the Alternative View on ED 77:</p> <p>(a) recommends that the IPSASB clarifies whether a loss of utility of an asset should be treated as:</p> <ul style="list-style-type: none"> (i) surplus capacity, which is not adjusted for when measuring the asset's COV; or (ii) an indication of economic obsolescence, which is deducted when measuring the asset's COV; or (iii) an indication of impairment; and <p>(b) mentions that some Australian stakeholders argued that surplus capacity should be bifurcated from the asset only if and when:</p>

SMC/Aspect of COV	Key points in Agenda Paper 13.3
	(i) the surplus capacity is presently severable from the rest of the asset; and (ii) the entity has a plan to dispose of that severable surplus capacity part of the asset (and does not merely have the right to dispose of that capacity).
<i>SMC 7 in ED 77</i>	
(e) Whether an asset's current value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used	Agrees with the IPSASB that an asset's COV should assume that the notional replacement will be situated in the same location as the existing asset is situated or used. The Board holds this view for any current entry value, such as a fair value measurement calculated by applying the cost approach in IFRS 13/AASB 13.
<i>SMC 9 in ED 77</i>	
(f) The IPSASB's proposal that fair value is applicable to the current value measurement of assets held primarily for their financial capacity	(a) Fair value is the appropriate current value measurement basis for non-financial assets held primarily for their financial capacity; but (b) the Board would not limit the application of fair value to assets held primarily for their financial capacity.

Timeline for finalising the submission

9. A small number of stakeholders have informed staff that they are planning to provide the Board comments on the IPSASB's proposals at the end of September. Therefore, following the September Board meeting, staff will update the draft submission in light of any significant new comments received from those stakeholders, and to reflect the Board's decisions at the September meeting.
10. Staff expect to provide the final draft submission to the Board subcommittee (formed at the February 2021 meeting) by 8 October 2021 for its approval out of session. Comments are due to the IPSASB by 25 October 2021.
11. Staff expect to develop a paper for discussion by the Board at the November 2021 meeting regarding the implications of comments received on ITC 45 for the direction of future work on the FVM project.

Question for Board members

Q1: Do Board members have any comments on the process for completing the submission, as described in paragraphs 9 and 10?