



Project:	Fair Value Measurement for NFP Public Sector Entities	Meeting:	AASB September 2022 (M190)
Topic:	Application and due process	Date of this paper:	5 September 2022
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		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Consider feedback on Exposure Draft

Objectives of this paper

1. Subject to the Board's decisions in Agenda Papers 8.2–8.5, the objectives of this paper are for the Board to **decide**:
 - (a) whether the proposed modifications to AASB 13 *Fair Value Measurement* should be applied prospectively;
 - (b) whether the proposals should be applied also to not-for-profit (NFP) entities in the private sector; and
 - (a) the required due process for finalising the Amending Standard.

The structure of this paper

2. This paper is set out as follows:
 - [Part A](#): Prospective application and effective date
 - [Part B](#): Limiting the scope to NFP public sector entities
 - [Part C](#): The due process and timeline

Overview of staff recommendations

3. Staff recommend the Board:
 - (a) confirms its proposals to:
 - (i) require the Amending Standard to be applied prospectively (early adoption permitted) with no option for entities to voluntarily apply retrospectively; and
 - (ii) limit the scope of the Amending Standard to NFP public sector entities only; and
 - (b) issues a Fatal-Flaw Review Draft of the Amending Standard for consultation prior to finalisation.

Part A: Prospective application and effective date

4. The Board decided that the proposed authoritative implementation guidance in ED 320¹ should be applied prospectively, with earlier application permitted, for annual periods beginning on or after 1 January 2024. Five ED respondents provided a response to the relevant SMC questions on this topic (Q17 and Q21). All five respondents agree with these proposals [S3–HoTARAC, S4–EY, S9–CA&CPA, S12–ACAG, S15–Deloitte].
5. The Board also included SMCs 18–20 in ED 320, which asked for stakeholders’ views on whether it would be appropriate to provide an option for an entity to elect to restate comparative information as if the proposed guidance had been retrospectively applied. Of the five respondents, two agreed [S3–HoTARAC, S9–CA & CPA] and three disagreed [S4–EY, S12–ACAG, S15–Deloitte].
6. S9–CA & CPA commented that retrospective application of the proposed guidance may improve comparability and increase the quality of information available to users of financial statements. Therefore, they argued that an entity should have the option to choose retrospective application if it is cost beneficial for it to do so.
7. In contrast, S4–EY, S12–ACAG and S15–Deloitte provided the following reasons for disagreeing with providing an option for an entity to voluntarily apply the proposed guidance retrospectively:
 - (a) S4–EY considered that hindsight may be required to restate comparative information, which would be inappropriate. S12–ACAG made a similar comment that not restating comparative information is consistent with the IASB’s view noted in paragraph BC230 of the Basis for Conclusions for IFRS 13 *Fair Value Measurement*, that the “... disclosures need not be presented in periods before initial application of the IFRS because it would be difficult to apply some of the requirements in IFRS 13 without the use of hindsight in selecting the inputs that would have been appropriate in prior periods.”
 - (b) S12–ACAG also noted that paragraph 32(c) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (as amended by AASB 2021-2²) states that the fair value of an asset applying AASB 13 is an example of accounting estimates under AASB 108. Allowing an entity to apply the proposed guidance retrospectively would be against the requirement in AASB 108 paragraph 38 that a change in accounting estimate is recognised prospectively.
 - (c) S15–Deloitte commented that restatements of prior period fair values would create confusion around what fair value means and would result in unnecessary adjustments to the reporting of Whole of Government financial statements as the impact of depreciation would flow through to the comprehensive result.

Staff analysis and recommendation

8. AASB 108 paragraph 34A (added by AASB 2021-2) states that “The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.” This confirms the Board’s views noted in ED 320 paragraph BC182 that any resulting change in

1 ED 320 [Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities](#)

2 AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*, effective for annual periods beginning on or after 1 January 2023, amended paragraph 32(c) of AASB 108.

measurement inputs or techniques is considered a change in accounting estimate and should be recognised prospectively.

9. Accordingly, staff recommend proceeding with the Board’s proposal to require the Amending Standard to be applied prospectively for annual periods beginning on or after 1 January 2024, with earlier application permitted.

Question for Board members

Q1: Do Board members agree to confirm the Board’s proposal to require the Amending Standard to be applied prospectively for annual periods beginning on or after 1 January 2024, with earlier application permitted? If not, please provide your alternative view and reasons for that view.

Part B: Limiting the scope of AASB 13 modifications to NFP public sector entities

10. When developing ED 320, the Board decided to limit the scope of the proposed modifications to AASB 13 to NFP public sector entities because to date the Board has not been informed that:
 - (a) a significant number of NFP private sector entities measure their non-financial assets at fair value;
 - (b) NFP private sector entities are encountering significant issues with applying AASB 13; or
 - (c) some principles of AASB 13 have been applied inconsistently in this sector (unlike in the public sector).

Therefore, the Board took the view that NFP private sector entities should not be required to implement the proposed guidance, which may cause some assets to be valued differently.

11. The Board added SMC 1 in ED 320 asking whether stakeholders consider the proposals should be applied also to NFP private sector entities. Seven respondents provided a response to SMC 1, as summarise in paragraphs below.
12. Three respondents agreed that NFP private sector should not be required to apply the modifications [S6–PwC, S7–KPMG, S15–Deloitte]. S15–Deloitte noted that under AASB 108, an NFP private sector can voluntarily apply the proposed implementation guidance. S6–PwC recommended that the Board permits NFP private sector entities to voluntarily apply the proposed guidance.
13. In contrast, S14–Liquid Pacific considered that any fair value guidance should be applicable to all reporting entities and that the fair value of an asset should be unaffected by the sector in which the asset’s holder operates. They commented that:
 - (a) “... It is inconceivable that should an asset pass from one entity to another, the value of that asset may move up or down dependent on who the new owner is.”
 - (b) they do not “... support the implementation of an owner specific guidance if that guidance seeks to differentiate fair values only for that group.”
14. Three other respondents commented that, due to the Board’s transaction neutrality policy, the proposed guidance should in theory be applicable also to NFP private sector entities [S4–EY, S8–IPA, S9–CA & CPA]. S4–EY and S8–IPA recommended the Board to undertake further work to assess whether the proposed modifications should be available to NFP private sector entities.

Staff analysis and recommendation

15. Staff consider that limiting the scope of the Amending Standard to NFP public sector entities is not necessarily a breach of the Board's transaction neutrality policy because many assets held by NFP public sector entities are largely unique to the public sector (that is, it is unlikely that private sector entities would hold similar assets to those held in the public sector).
16. In addition, even if it were considered that limiting the AASB 13 modifications to NFP entities in the public sector would be inconsistent with the Board's transaction neutrality policy, staff consider that this would be justified. This is because, unlike public sector entities, private sector entities have a choice to subsequently measure their non-financial assets using either the cost model or the revaluation model.³ This results in asset values measured using different models among private sector entities' financial statements not being as comparable as the asset values reported by public sector entities. Accordingly, comparability in non-financial asset balances cannot be achieved in the private sector.
17. Staff observe that the implementation guidance clarifying the application of AASB 13 should be available for application by NFP private sector entities via paragraphs 10 and 11(a) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.⁴ However, staff also consider that any modifications of AASB 13 that amend (rather than merely clarify) the application of that Standard (eg the proposed rebuttal point for the current use presumption in identifying an asset's highest and best use (see Agenda Paper 8.3) would be unavailable to be applied by entities outside the scope of the Amending Standard because, in the staff's view, the circumstances referred to in paragraph 10 of AASB 108 would not exist. Thus, staff consider that the cost savings expected to ensue from the proposed amendments to AASB 13 requirements would not be realisable for NFP entities in the private sector if such entities are excluded from the scope of those amendments.
18. The Board would need to undertake further work to understand how the proposed modifications would affect NFP private sector entities before making a decision on whether to extend the scope of the Amending Standard to this sector. In this aspect, staff observed that no stakeholders have stated that NFP private sector entities require additional guidance to assist them in applying AASB 13. Submissions and outreach activities on ITC 46 *AASB Agenda Consultation 2022–2026* did not identify that fair value guidance is needed in the NFP private sector.
19. For these reasons, staff consider that an adequate case has not been made to extend the scope of the project (and the proposed AASB 13 modifications) to NFP private sector entities. Accordingly, staff recommend proceeding with the Board's proposal to limit the scope of the Amending Standard to NFP public sector entities only.

Question for Board members

Q2: Do Board members agree to confirm the Board's proposal to limit the scope of the Amending Standard to NFP public sector entities only? If not, please provide your alternative view and reasons for that view.

3 In accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*.

4 Paragraphs 10 and 11(a) of AASB 108 specify that, in the absence of an Australian Accounting Standard that specifically applies to a transaction, other event or condition (staff consider a lack of applicable standard-level guidance on the types of costs to include in a CRC estimate would be an example of this), management uses judgement in developing and applying an appropriate accounting policy, by referring to, and considering the applicability of, the requirements in Australian Accounting Standards dealing with similar and related issues.

Part C: The due process

- 20. In accordance with paragraph 6.5(g) of the [AASB Due Process Framework for Setting Standards](#), the Board is required to consider whether its proposals in an ED should be re-exposed for public comment prior to finalisation.⁵
- 21. Staff are proposing numerous changes to the proposals in ED 320. In particular, the proposed change to the rebuttal point of when the presumption in AASB 13 paragraph 29 that an asset’s current use is its highest and use can be rebutted (see Agenda Paper 8.3: Highest and best use) may be considered a significant change to the ED 320 proposals. However, that proposed change is in line with the comments received from the significant majority of ED respondents and the Board has received extensive input on the main options available. Therefore, staff consider that re-exposure of the Board’s proposals (as amended upon redeliberation) is unlikely to be needed.
- 22. However, subject to the Board’s views on Agenda Papers 8.2–8.5, staff recommend issuing a fatal-flaw review draft version of the Amending Standard to identify any unintended consequences of the revisions made to the proposed AASB 13 modifications.

Proposed timeline

- 23. The following table outlines the proposed timeline for issuing the Amending Standard, assuming the Board would issue a fatal-flaw review draft Standard for public comment prior to finalisation.

Timing/Meeting	Project Milestones
October – November 2022	Board or Board subcommittee to approve a Fatal-Flaw Review (FFR) draft Standard out of session by 12 October 2022. Issue the FFR draft Standard with a 30-day comment period ending on 11 November 2022.
14–15 December 2022: Board meeting	Board to: (a) consider feedback received on the FFR draft Standard; and (b) vote on the ballot draft amending Standard.
December 2022	Issue final Standard by 22 December 2022.

Questions for Board members
Q3: Do Board members agree to issue a FFR draft Standard for public comment? If not, please provide your alternative view and reasons for that view.
Q4: Do Board members agree with a 30-day comment period?
Q5: Do Board members agree that the FFR draft Standard should be approved by the Board Subcommittee, instead of the full Board, out of session?

5 Paragraph 7.7.1 of that framework outlines the criteria the AASB would use in making this determination, as follows:
 (a) extent of new substantive issues not considered during the initial consultation (eg new requirements, terminology and/or examples);
 (b) extent of change to original proposals (structural changes excluded);
 (c) extent of input from interested parties and whether any key stakeholders have not provided input; and
 (d) any new evidence on the extent and nature of the issue being addressed.

Paragraph 7.6.7 states that “Where there is some change from the ED but not enough to warrant re-exposure, a ‘fatal-flaw review’ version of a pronouncement may also be issued for a short period for public comment as a final opportunity to identify any further unintended consequences of the proposals, prior to voting by the Board.”