Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Fair Value Measurement for Not-For-Profit Entities**	**Meeting:**	AASB September 2022 (M190)
Topic:	**Application of the cost approach**	**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. In respect of the **application of the cost approach** for measuring the fair values of not-for-profit (NFP) public sector entity assets,[1] the objectives of this paper are for the Board to:

   (a) **consider** stakeholder feedback received on the proposed implementation guidance (IG) (questions 9 to 16) and illustrative examples in ED 320;[2] and

   (b) **decide** on any modifications to AASB 13 *Fair Value Measurement* for the purposes of finalising the Amending Standard.

Introduction

2. AASB 13 paragraph B8 states that "The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)". AASB 13 paragraph B9 states: "From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset."

3. ED 320 included proposed IG regarding applying the cost approach to measuring the fair value of NFP public sector entity assets in response to requests from stakeholders to provide such guidance because:

   (a) AASB 13 did not specify how the cost approach should be applied; specifically, there is no guidance on the nature of costs to include in an asset's current replacement cost (CRC);

   (b) the cost approach assumes that an asset will be hypothetically replaced in the most economical manner, but there is confusion about what that concept means when identifying the costs to include in an asset's CRC;

1 For ease of reference, unless otherwise stated, each 'asset' referred to in this paper is a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows.

2 ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

(c) AASB 13 did not specify how economic obsolescence should be considered; and

(d) the topics noted in (a)–(c) are pervasive issues in the NFP public sector and involve divergent practice, particularly where an asset cannot be purchased or replaced in a single transaction (ie when an entity needs to hypothetically construct/replace the asset by purchasing components).

4. Therefore, the Board proposed adding IG in ED 320 to address each of the topics noted in (a)–(c). The Board also included two illustrative examples in ED 320 to illustrate how the proposed IG would apply.

Overview of ED responses and staff recommendations

Nature of costs to include in an asset's CRC

5. The Board received 16 written submissions on ED 320.[3] Based on the written submissions and roundtable discussion, staff noted that even though a significant majority of stakeholders support the Board providing guidance to assist NFP public sector entities to apply the cost approach more consistently:

   (a) a minority of stakeholders agree with the draft IG paragraphs in ED 320; but

   (b) a majority of stakeholders, although agreeing in principle that all costs necessary and intrinsically linked to acquiring or constructing a reference asset should be included in the subject asset's CRC, have concerns with the practical application of the draft IG paragraphs.

6. Among other comments, the ED proposals that stakeholders were most concerned about related to:

   (a) the proposed overarching principle that ED 320 proposed – that an entity assumes the subject asset presently does not exist. They considered that this principle contradicts the proposed requirement to include disruption costs and costs to remove and dispose of unwanted structures;

   (b) the related proposed requirement to include once-only costs, disruption costs and costs to remove and dispose of unwanted structures on land. Stakeholders are of the view that it would sometimes be difficult to identify and reliably measure those costs; and

   (c) using a modern equivalent asset as the reference asset to measure the CRC of a heritage asset.

7. ED 320 had proposed a modification to AASB 13 that would assist in addressing many of the stakeholders' concerns mentioned in paragraph 3. That proposal is discussed in Agenda Paper 8.4: Market participant assumptions, relating to the Board's proposal to re-express the guidance in AASB 13 paragraph 89 to require an entity, when developing unobservable inputs or other inputs to measure the fair value of an asset, to use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data. Staff consider that ED 320 was not sufficiently clear in explaining how to apply this proposal to measuring the fair value of an asset when the cost approach is applied.

8. Based on the feedback received, and subject to the Board's decision in Agenda Paper 8.4, staff recommend that the IG be amended to:

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3 The sixteen submissions have been compiled as Agenda Paper 8.7 in the supplementary folder.

(a) omit the ED 320's phrase "assume the subject asset presently does not exist" and the term "once-only costs";

(b) add a paragraph to the guidance to remind readers that, where paragraph F6[4] applies, when applying the cost approach to measure the fair value of an asset, the entity would be required to use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data (see draft paragraph F13(b) below);

(c) provide a practical expedient that an entity need not undertake exhaustive efforts to obtain information about the costs to include in an asset's CRC, but shall include those costs if data about them are reasonably available (see draft paragraph F15 below); and

(d) clarify that the consideration of which costs should be included in an asset's CRC is based on a reference asset assumed to be affected by the same conditions as those affecting the subject asset as at the measurement date (not the conditions when the subject asset was historically acquired or constructed).

9. Staff suggested revised guidance is included below for the Board's consideration, to illustrate the staff recommendations. Because of their extent, the changes are not marked up from the ED 320 text.

Application of the cost approach (paragraphs B8 and B9)

F10 Paragraphs B8 and B9 state that the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost), based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.

F11 Accordingly, when measuring the fair value of a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows (the subject asset) using the cost approach, an entity estimates the current replacement cost of the subject asset by estimating the cost currently required for a market participant buyer to acquire or construct a reference asset in accordance with paragraphs F13–F16, and:

(a) adjusting that estimate for any differences between the current service capacity of the reference asset and the subject asset (for example, where the modern equivalent asset would be engineered to a higher standard than the subject asset, which might occur where the asset was self-constructed but its replacement by a modern equivalent is most likely to occur through a service concession arrangement whereby the reference asset is designed to provide services for an economic life longer than that of the subject asset); and

(b) adjusting for any obsolescence.

F12 A reference asset is a suitable alternative to the subject asset that the market participant buyer would consider in developing its pricing assumptions about the subject asset. Identifying the most appropriate reference asset involves the application of judgement and, on occasion, detailed valuation assessments in the circumstances of the subject asset. A reference asset could be a modern equivalent asset or a replica asset (where the utility offered by the subject asset could be provided only, or more cheaply, by a replica rather than a modern equivalent asset). A modern equivalent

4 Staff's draft paragraph F6 in Agenda Paper 8.4 states:

"Accordingly, when applying the principles in paragraphs 61 and 62 to measure the fair value of a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows, if:

(a) the market selling price of a comparable asset is not observable; or

(b) not all other market participant data required to measure the fair value of the asset are observable,

the entity shall use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data."

asset is an asset that provides similar function and equivalent utility to the subject asset, but is of a current design and constructed or made using current cost-effective materials and techniques.

Estimating the replacement cost of a reference asset

F13 For the purposes of paragraph F11, when estimating the cost currently required for a market participant buyer to acquire or construct a reference asset, an entity:

(a) assumes the reference asset will be acquired or constructed at the subject asset's existing location; and

(b) where paragraph F6 applies, shall use its own assumptions as a starting point in measuring the costs currently required to acquire or construct a reference asset and adjust those assumptions if reasonably available information indicates that other market participants would use different data.

F14 When applying paragraph F13, the entity shall, subject to paragraph F15, include the following costs (among other costs) in the reference asset's replacement cost if they would need to be incurred upon the hypothetical acquisition or construction of the reference asset at the measurement date:

(a) costs required to restore another entity's asset, if the asset that would need restoration existed at the measurement date and would be disturbed in a hypothetical acquisition or construction of the reference improvement. However, such costs are excluded if they relate to restoration of an asset of another entity included in the consolidated group (if any) to which the entity belongs;

(b) other disruption costs that would hypothetically be incurred when acquiring or constructing the reference asset at the measurement date (eg costs of redirecting traffic when replacement of the asset disrupts the operation of a road); and

(c) if the subject asset is fixed to a parcel of land, and land available in the proximity of the subject asset has features needing removal or remediation that the subject asset does not:

(i) costs required to prepare the land (eg earthworks and cleaning up contamination) for the hypothetical construction of the reference asset; and

(ii) costs required to remove and dispose of any unwanted existing structures on the land to make way for the hypothetical construction of the reference asset.

F15 An entity need not undertake exhaustive efforts to obtain information about the costs referred to in paragraph F14. However, an entity shall include all such costs for which data are reasonably available.

F16 When applying the cost approach in accordance with paragraph F11 to measure the fair value of a heritage asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows, to the extent that its heritage features are an essential part of its service capacity, replacement cost generally means the cost of replicating those features of the subject asset. Replication (reproduction cost) would assume reconstruction using modern cost-effective materials and processes, but sympathetic with the original heritage design and structure to the extent feasible.

10. Staff also recommend adding additional illustrative examples to illustrate proposed paragraphs F10–F16. Those examples are included in paragraph 90 for the Board's consideration.

Economic obsolescence

11. Eight of the ten respondents who commented on the proposed guidance on economic obsolescence strongly supported that guidance. However, two respondents expressed concerns regarding the practical challenges of applying the guidance.

12. Accordingly, staff recommend clarifying the IG paragraphs and adding additional examples to clarify the principles. Economic obsolescence is discussed in Part D of the paper.

Structure of this paper

13. This paper is set out as follows:

(a) Part A discusses proposed paragraphs F14(b) and F14(c) regarding the fundamental concept of measuring the subject asset's CRC based on the cost of a reference asset

(b) Part B discusses proposed paragraph F14(a) regarding the location of land

(c) Part C discusses proposed paragraphs F14(b) and F15 regarding the costs to include in the subject asset's CRC; which is set out in five sections:

- Section 1: Nature of component costs to include in an asset's CRC
    - Section 1.1: Respondents' feedback and key concerns
    - Section 1.2: Staff recommended changes to the proposed IG regarding nature of component costs
- Section 2: The practical application of hypothetically replacing the subject asset in 'the most economical manner'
- Section 3: Summary of staff recommendations – Costs to include in an asset's CRC
- Section 4: Draft illustrative examples
- Section 5: Suggested changes to the Basis for Conclusions

(d) Part D discusses proposed paragraphs F16–F18 regarding economic obsolescence.

(e) Appendix A: Summary of respondents' comments on SMCs 10, 12 and 13.

Part A: Measuring the CRC of the subject asset based on the replacement cost of a reference asset (SMC 11)

14. ED 320 paragraph F14(b) proposed that, when measuring an asset's fair value using the cost approach, the entity uses the replacement cost of a reference asset as input and adjusts the estimated replacement cost of that reference asset for any differences between the current service capacity of the reference asset and the subject asset.

15. ED 320 paragraph F14(c) stated that a reference asset could be a modern equivalent asset or a replica asset (where the utility offered by the subject asset could be provided only, or more cheaply, by a replica rather than a modern equivalent asset). ED 320 paragraph F14 is reproduced below for Board members' reference.

> ### Application of the cost approach (paragraphs B8 and B9)
>
> F14 When measuring the fair value of a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows using the cost approach under paragraphs B8 and B9, the entity:
>
> (a) assumes the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location;
>
> (b) estimates the replacement cost of the asset subject to measurement (the subject asset) assuming that the asset presently does not exist, and uses the replacement cost of a reference asset as input. All necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date are included in the subject asset's current replacement cost; and
>
> (c) adjusts the estimated replacement cost of a reference asset for any differences between the current service capacity of the reference asset and the subject asset. A reference asset could be a modern equivalent asset or a replica asset (where the utility offered by the subject asset could be provided only, or more cheaply, by a replica rather than a modern equivalent asset). A modern equivalent asset is an asset that provides similar function and equivalent utility to the subject asset, but which is of a current design and constructed or made using current cost-effective materials and techniques.

Respondents' feedback

16. Thirteen respondents responded to SMC 11 related to paragraphs F14(b) and F14(c) in ED 320. The Board's proposed IG was generally supported by respondents, 9 of whom agreed with the Board's proposal:

Agree	Not completely agree/disagree	Disagree	No comment
9	**3**	**1**	**3**
S1– Cessnock City Council S2–APV S3–HoTARAC S4–EY S6–PwC S7–KPMG S9–CA & CPA S10–API S12–ACAG	S14–Liquid Pacific S15–Deloitte S16–Tony Blefari	S8–IPA	S5–Blacktown City Council S11–Local Gov't Professionals NSW S13–ABS

Respondents' reasons for agreeing with the proposed IG

17. S9–CA & CPA and S12–ACAG, who agreed with the proposal, stated that the guidance is consistent with International Valuation Standard IVS 105 *Valuation Approaches and Methods* (this is noted in paragraphs BC91–BC93 of the Basis for Conclusions on ED 320).

18. S1–Cessnock City Council agreed with the Board's proposal as long as a reference asset is available.

Request for further clarifications – modern equivalent asset vs replica as the reference asset

19. The three respondents who did not clearly agree or disagree with paragraphs F14(b) and F14(c) of ED 320 noted particular concerns and/or suggested further clarification of the guidance.

20. S14–Liquid Pacific stated that: "We do not agree the replacement cost of an existing asset should be referenced to a modern equivalent asset if a cost for the replica of the asset being valued is available" and that they have encountered several public sector entities valuing alternative assets (ie assets you would replace your asset with) rather than the assets they own (eg basing valuations of bitumen sealed roads on graded unsealed roads).

21. Similarly, S16–Tony Blefari asked: "Could the definition clarify that the modern equivalent asset intention is applicable in cases where an existing asset cannot be sourced or replaced with current design standards, materials, practices and/or technology? Some suggested text to clarify … follows:

    - All existing assets will be renewed in accordance with current industry design standards and replaced like for like, where possible; or
    - In cases where assets are not able to be renewed like for like (due to changed design standards, materials, practices and/or technology), the gross replacement cost of the asset will be assessed based on replacement with a new asset having similar service potential (modern engineering equivalent)."

22. S15–Deloitte stated that:

    (a) We agree in principle with the proposal in para. F14(c) regarding the use of a reference asset to estimate the replacement cost of the subject asset; and

    (b) "We have observed that this is commonly applied in practice, however, there are instances where reference to a modern equivalent can create confusion in the accounting for an asset. …" [In some cases, for a road, for example] "… the replacement cost of the replica asset is higher, but in bringing it back to its depreciated replacement cost it can give the impression that the road is in fact impaired because it is not of the same specifications or standard of the modern equivalent asset. We have historically observed some confusion in practice and clarification of the appropriate treatment where a modern equivalent asset would have different attributes to the existing asset (would be) valuable."

Staff analysis

23. In relation to the request for further clarification and other respondent comments noted in paragraphs 20–22 above, staff consider the need to exercise judgement about the technique(s) to apply when estimating an asset's CRC seems unavoidable because the objective is to measure the service capacity embodied in the asset for which market participants would be prepared to pay, which is not necessarily the same as the cost to replicate the physical properties of an asset.

24. In this regard, staff note that paragraphs B8 and B9 of AASB 13 state that the cost approach reflects "the amount that would be required currently to replace the service capacity of an

asset" and "the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility" (emphasis added). Similarly, paragraph 70.2 of IVS 105 states that "replacement cost … is based on replicating the utility of the asset, not the exact physical properties of the asset" (emphasis added). Staff observe that the guidance in paragraph F14(c) conforms to the wording of paragraphs 70.5 and 70.6 of IVS 105, and that S10–API supported the wording of paragraphs F14(b) and F14(c) of ED 320.

25. Furthermore, staff do not recommend stating that the cost of an available physical replica should be preferred to the cost of a modern equivalent asset (adjusted for differences between the reference asset and the subject asset) because:

    (a) as noted in ED 320 paragraph BC93, IVS 105 paragraph 70.6 states that the reproduction cost to create an exact replica of the subject is appropriate when "the cost of a modern equivalent asset is greater than the cost of recreating a replica of the subject asset, or the utility offered by the subject asset could only be provided by a replica rather than a modern equivalent"; and

    (b) if the current service capacity of an asset can be replaced more economically with a modern equivalent asset, it seems unlikely that a market participant buyer would be willing to pay for the current cost of a replica asset (which would be more than the cost of a modern equivalent asset comprising the same service capacity).

26. Stipulating more restrictive guidance than that in paragraph F14(c) on when either a modern equivalent asset or a replica asset is used as a reference asset would encroach on detailed valuation assessments and does not belong within the scope of an Australian Accounting Standard.

27. For these reasons, staff do not support the respondents' suggestions for amending paragraphs F14(b) and F14(c).

Concern about measuring heritage assets using modern equivalent assets as reference assets

28. Some respondents disagreed with using a modern equivalent asset as the reference asset to measure the CRC of a heritage asset.

29. S12–ACAG also commented that a replica may be appropriate in the public sector for certain heritage, cultural or collection assets if market participants would require a direct replica rather than a modern equivalent.

30. S10–API stated that the proposed guidance is applicable to heritage buildings held because of their heritage significance, implying support for applying that proposed guidance to such buildings.

31. S3–HoTARAC noted that, in respect of heritage and cultural assets only, they disagree with the proposed guidance. HoTARAC stated that: "Given the unique and specialised nature of heritage and cultural assets, it will not be possible to adopt a modern equivalent or replica asset, as the replacement cost will need to follow the specific requirements to restore such assets."

32. Some members of HoTARAC, and S10–API, are of the following (or highly similarly worded) view:

> "for heritage buildings held, at least some in part, because of their heritage significance, current cost means the cost of replicating the existing asset. This is because the replication cost reflects the valuation of the heritage value or quality embodied in the asset. Replication (reproduction cost) would assume reconstruction with modern materials, but sympathetic with the original heritage design and structure, to the extent that this is feasible. For example, if a heritage building was a prestige construction with an imposing entry, high ceilings, elaborate sandstone carvings, open verandas and large

carved cedar doors, the cost of replication would reflect that design and structure." [quote from S3–HoTARAC]

Staff analysis

33. Regarding the comments from S3–HoTARAC and S10–API noted in paragraphs 31–32 about the application of paragraphs F14(b) and F14(c) to heritage assets, staff consider that limited guidance could be provided along the following lines:

> "For heritage assets (eg heritage buildings), to the extent that their heritage features are an essential part of their service capacity, replacement cost generally means the cost of replicating those features of the subject asset. Replication (reproduction cost) would assume reconstruction using modern cost-effective materials and processes, but sympathetic with the original heritage design and structure to the extent feasible."

Staff recommendation – Reference asset

34. In respect of the proposed guidance in F14(b) and F14(c) to specify in AASB 13 that, when measuring an asset's fair value using the cost approach, the entity uses the replacement cost of a reference asset as input, staff recommend:

    (a) proceeding with the proposal, but adding guidance regarding heritage assets as set out in paragraph 33 (also see staff's draft paragraph F16 in paragraph 9 above); and

    (b) not providing further guidance on whether a modern equivalent asset or a replica asset should be used as a reference asset for measuring the CRC of the subject asset.

Question for Board members

Q1: Do Board members agree with the staff recommendations in paragraph 34?

If not, please provide your alternative view and reasons for that view.

Part B: Location of land

35. ED 320 paragraph F14(a) proposes that an entity, when applying the cost approach to measure the CRC of an asset, "… assumes the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location." (ED 320 paragraph F14 is quoted in paragraph 15)

Respondents' feedback

36. Eleven ED respondents included a response to Specific Matter for Comment (SMC) question 9 related to proposed paragraph 14(a) of ED 320. All eleven who responded agreed with the Board's proposed IG on this issue:

Agree	Not completely agree/disagree	Disagree	No comment
11	**0**	**0**	**5**
S2–APV S3–HoTARAC S4–EY S7–KPMG S9–CA & CPA S10–API S12–ACAG S13–ABS S14–Liquid Pacific S15–Deloitte S16–Tony Blefari			S1– Cessnock City Council S5–Blacktown City Council S6–PwC S8–IPA S11–Local Gov't Professionals NSW

Respondents' reasons for agreeing with the proposed IG

37. Six respondents provided their reasons for supporting the proposed paragraph F14(a):

    (a) S9–CA & CPA commented that "feedback from our members is that this is a reasonable and pragmatic approach to resolving this complicated judgement issue, eliminating the need for dealing with the complexities associated with asset measurement in a cheaper location;

    (b) S12–ACAG noted that generally, there will be reasons precluding the move to another location, such as a social policy decision/legal restriction/operational requirements etc that require the asset to be located in its existing location;

    (c) S13–ABS commented that when "… measuring the fair value of an asset, an entity should take into account particular characteristics of the asset if market participants would take those characteristics into account when pricing the asset, including the current location of the asset";

    (d) S14–Liquid Pacific commented that "the concept of modern equivalent cost has for some time been taken out of context and the issue of location is at the forefront of this distortion … we struggle to recognise how the true cost of service delivery can be identified using values based on hypothetical assets";

    (e) S15–Deloitte noted that the time and effort required "… to identify and factor in the cost differential for relocating the asset would not result in more useful financial reporting"; and

    (f) S16–Tony Blefari commented that "… assets should be valued in accordance with their current service provided, in order to provide a true representation of ... " their cost and subsequent fair value.

Staff recommendation – Location of land

38. Based on the feedback received, staff recommend proceeding with the proposal to modify AASB 13 to specify that when measuring the fair value of an NFP public sector asset using the cost approach, the entity assumes the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location.

39. The draft wording for this principle is set out in paragraph F13(a) noted in paragraph 9, which states an entity "… assumes the reference asset will be acquired or constructed at the subject asset's existing location…". Paragraph F13(a) includes an editorial suggestion that the entity assumes the *reference asset* will be acquired or constructed at the subject asset's existing location. This edit would be consistent with giving greater emphasis to fair value measurements being based on reference assets, in view of the subject asset not having been sold. Staff consider this suggestion would not change the principle involved.

Question for Board members

Q2: Do Board members agree to confirm the proposal in ED 320 to specify that when measuring the fair value of an NFP public sector asset using the cost approach, the entity assumes the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location?

If not, please provide your alternative view and reasons for that view.

Part C: Costs to include in the subject asset's CRC (SMCs 10, 12–14)

Background – the Board's consideration when developing ED 320

40. The Board added paragraphs F14(b) and F15 to propose application guidance regarding the factors to consider when determining the costs to include in the subject asset's CRC. Paragraph F14(b) states that when measuring an asset using the cost approach, the entity assumes that the subject asset presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date are included in the subject asset's CRC [this is the subject of SMC 10].

41. Consistent with that overarching principle – all necessary costs intrinsically linked to acquiring or constructing the subject asset – paragraph F15 states that the following costs should be included in the subject asset's CRC [this is the subject of SMCs 12–13]:

    (a) once-only costs;

    (b) costs of removal and disposal of unwanted existing structures on land; and

    (c) intrinsically linked disruption costs, including costs of restoring another entity's asset that would be disrupted in a hypothetical replacement of the subject asset.

42. ED 320 paragraphs F14(b) and F15 are reproduced below for the Board's reference.

> ### Application of the cost approach (paragraphs B8 and B9)
>
> F14 When measuring the fair value of a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows using the cost approach under paragraphs B8 and B9, the entity:
>
> (a) …
>
> (b) estimates the replacement cost of the asset subject to measurement (the subject asset) assuming that the asset presently does not exist, and uses the replacement cost of a reference asset as input. All necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date are included in the subject asset's current replacement cost; and
>
> (c) …
>
> F15 For the purposes of paragraph F14(b), the entity:
>
> (a) includes once-only costs in the replacement cost of the subject asset, that is, costs of parts of an asset not expected to actually be replaced in the future (because they are not expected to wear out) but that would need to be incurred in a hypothetical acquisition or construction of the subject asset, assuming it does not presently exist;
>
> (b) determines, based on the circumstances of the subject asset, whether the following costs would (among other costs) need to be incurred upon the hypothetical acquisition or construction of the subject asset at the measurement date:
>
> (i) costs of removal and disposal of any unwanted existing structures on land that would hypothetically be incurred unavoidably when acquiring or constructing the subject asset at the measurement date; and
>
> (ii) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs; and
>
> (c) uses the costs necessarily incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than using only the cheapest legally permitted costs to the entity. For example, where replacement of the surface of a road would necessarily, in the ordinary course of operations, occur at night rather than during daytime to minimise disruption to drivers, the more costly night-time costs should be included in the asset's current replacement cost rather than the lower daytime costs. This would occur when it is necessary for the entity to incur the higher night-time cost,

	that is, if replacement of the surface of the road in the daytime would be incompatible with the entity's required continuity of service.

43. Respondents' comments are discussed in separate sections below:

(a) Section 1: Nature of component costs to include in an asset's CRC (SMCs 10, 12 and 13)

- Section 1.1: Respondents' feedback and key concerns
- Section 1.2: Staff recommended changes to the proposed IG

(b) Section 2: The practical application of hypothetically replacing the subject asset in 'the most economical manner" (SMC 14)

(c) Section 3: Summary of staff recommendations – Costs to include in an asset's CRC

(d) Section 4: Draft illustrative examples

(e) Section 5: Suggested changes to the Basis for Conclusions

Section 1: Nature of component costs to include in an asset's CRC (SMCs 10, 12 and 13)

Section 1.1: Respondents' feedback and key concerns

44. Because the comments to SMCs 10, 12 and 13 are closely linked, the respondents' feedback and staff analysis thereof are considered collectively in this section. Appendix A includes a summary of respondents' comments on those three SMCs.

SMC 10: Do you agree with the proposal in paragraph F14(b) that the entity should assume that the asset subject to measurement (the subject asset) presently does not exist; and therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the asset's current replacement cost? Please provide reasons to support your view.

Agree	Not completely agree/disagree	Disagree	No comment
6	**4**	**2**	**4**
S2–APV S3–HoTARAC S4–EY S7–KPMG S10–API S15–Deloitte	S9–CA & CPA S12–ACAG S14–Liquid Pacific S16–Tony Blefari	S1– Cessnock City Council S8–IPA	S5–Blacktown City Council S6–PwC S11–Local Gov't Professionals NSW S13–ABS

SMC 12: Do you agree with the proposal in paragraph F15(a) that once-only costs that would be expected to be necessarily incurred in a hypothetical acquisition or construction of the subject asset should be included in that asset's current replacement cost? Please provide reasons to support your view.

Agree	Not completely agree/disagree	Disagree	No comment
7	**5**	**2**	**2**
S2–APV S3–HoTARAC S4–EY S7–KPMG S10–API	S6–PwC S9–CA & CPA S12–ACAG S14–Liquid Pacific S16–Tony Blefari	S1– Cessnock City Council S8–IPA	S5–Blacktown City Council S11–Local Gov't Professionals NSW

S13–ABS S15–Deloitte			

SMC 13: Do you agree with the proposal in paragraph F15(b) that, when estimating the current replacement cost of the subject asset, an entity should determine, based on the circumstances of the subject asset, whether the following costs would (among other costs) need to be incurred upon the hypothetical acquisition or construction of that asset at the measurement date:

(a) unavoidable costs of removal and disposal of unwanted existing structures on land; and

(b) any disruption costs that would hypothetically be incurred, when acquiring or constructing the subject asset at the measurement date, including costs of restoring an asset not controlled by the consolidated group (if any) to which the entity belongs?

SMC 13(a) Unavoidable removal and disposal costs			
Agree	**Not completely agree/disagree**	**Disagree**	**No comment**
5	**8**	**1**	**2**
S2–APV S4–EY S7–KPMG S10–API S13–ABS	S1– Cessnock City Council S3–HoTARAC S6–PwC S9–CA & CPA S12–ACAG S14–Liquid Pacific S15–Deloitte S16–Tony Blefari	S8–IPA	S5–Blacktown City Council S11–Local Gov't Professionals NSW

SMC 13(b) Disruption costs			
Agree	**Not completely agree/disagree**	**Disagree**	**No comment**
6	**6**	**2**	**2**
S2–APV S4–EY S7–KPMG S10–API S13–ABS S15–Deloitte	S3–HoTARAC S6–PwC S9–CA & CPA S12–ACAG S14–Liquid Pacific S16–Tony Blefari	S1– Cessnock City Council S8–IPA	S5–Blacktown City Council S11–Local Gov't Professionals NSW

Respondents' comments and staff analysis

45. Other than S2–APV, S4–EY, S7–KPMG, S10–API and S13–ABS, all other respondents who responded to SMCs 10, 12 and 13 had significant concerns about the practical challenges of the proposed paragraphs F14(b) and F15.

46. Three respondents explained that they agree with the proposed overarching principle to assume the subject asset presently does not exist (and therefore all necessary costs in intrinsically linked to acquiring or constructing the subject asset at the measurement date should be included in the subject asset's CRC) because:

(a) any cost directly attributable to acquiring or constructing an asset is consistent with the requirements of AASB 116 *Property, Plant and Equipment* (paragraphs 16 and 17), and should form part of the asset's CRC; and

(b) assuming the asset does not exist will enable capture of all costs that will be incurred to construct it initially and so will more accurately reflect the actual value represented by it [S3–HoTARAC, S10–API, S15–Deloitte].

47. S15–Deloitte noted that the replacement cost should reflect how an entity would acquire an asset as if it were starting the acquisition process from scratch; accordingly, this would include once-only costs. They elaborated on that view as follows:

> "We have observed instances where there is an immediate adjustment to a newly constructed asset because of differences in how the cost of the asset is initially measured applying the principles of AASB 116 and the determination of the replacement cost under AASB 13. As an example, we have seen instances where costs such as site preparation works and project management fees have been appropriately incorporated in the initial measurement of an item of property, plant and equipment, but were subsequently not considered an appropriate input to the determination of fair value, resulting in practically immediate write-downs. Therefore, the clarification that the replacement cost is to be considered the replacement of an asset that doesn't presently exist should help to eliminate some of these counterintuitive fair value adjustments."

48. S8–IPA generally disagrees with the proposed IG on the application of the cost approach in ED 320 because they consider it is too rigid to ensure adherence to the principles of CRC in AASB 13. Specifically, they stated that: "the explicit nature of including or excluding certain costs in determining CRC in ED 320, are rules-based that may not align with the principles of CRC" in AASB 13; and stated that "A better approach would be to develop guidance that reference/incorporate the above AASB 13 principles" (ie, those in paragraphs B8, B9, 25 and 26 of AASB 13) "when determining which expenditures are likely to be included and excluded in the CRC of an asset and the reasons for the determination."

Staff analysis

49. Staff consider the concern of S8–IPA about the guidance being rules-based and not referencing/incorporating the principles in AASB 13 not to be well-founded. The explicit nature of the proposed guidance in ED 320 responds to requests from public sector stakeholders to provide greater clarity about how to interpret paragraphs B8 and B9 of AASB 13 and thereby assist in reducing variability in NFP public sector entity practice regarding the application of the cost approach. To basically restate the principles of paragraphs B8 and B9 of AASB 13, without including specific rules, would seem highly unlikely to assist stakeholders in addressing the implementation issues they raised to the Board.

50. Staff observe that the proposed guidance in ED 320 is linked to the wording in paragraphs B8 and B9 of AASB 13. For example, paragraph F14(c) refers to 'service capacity', which is mentioned in paragraph B8.

Potential practical challenges in applying the proposals

51. Respondents commented that there will be practical changes in applying the proposed paragraphs F14(c)–F15. A summary of respondents' comments is included in Appendix A. Some roundtable participants also raised similar concerns. Staff identified 5 key areas of concerns raised by respondents, discussed in paragraphs 52–67 below.

52. **Concern 1: The concept of assuming the subject asset presently does not exist is confusing and inconsistent.** The principle in paragraph F14(b) to assume that the asset presently does not exist is confusing and apparently inconsistent with the following proposals in ED 320:

(a) Paragraph F14(a), which assumes replacement of the asset in its existing location, despite the asset 'not presently existing' [S12–ACAG];

(b) paragraph F15(b)(i) because if the asset is assumed not to exist, removal/disposal costs of unwanted existing structures on land would be irrelevant [S3–HoTARAC; S12–ACAG]; and

(c) paragraph F15(c) because that paragraph's example of replacing the surface component of a road contradicts the assumption under paragraph F14(b) that the whole road presently does not exist [S12–ACAG].

Staff analysis

53. Paragraph BC95 of ED 320 explains the rationale for the Board's proposal to assume that the subject asset presently does not exist (in paragraph F14(b)) as follows:

> "The Board concluded that the current replacement cost of an asset includes all necessary costs intrinsically linked to acquiring or constructing the asset at the measurement date (and not at the asset's historical date of construction). This is because a market participant buyer of the subject asset would need to incur those costs if it acquires the subject asset at the measurement date, whether that buyer acquires the subject asset from the entity or constructs the subject asset itself. Consequently, in estimating the current replacement cost of an asset, an entity estimates all necessary costs intrinsically linked to acquiring or constructing the subject asset assuming it presently does not exist (ie the market participant buyer does not presently possess the subject asset and needs to acquire it in its entirety) …"

54. Staff observe that the Board's proposed guidance and rationale above provided a conceptual underpinning for responding to diversity of views and practice regarding the nature of the costs that should be included in an estimate of an asset's replacement cost (before deducting obsolescence), eg whether 'once-only' costs should be included, and whether the nature of the costs incurred to replace the asset should reflect the asset's environment when it was acquired (ie the asset's components of historical cost updated for subsequent price changes) or the asset's environment at the measurement date.

55. Regarding the concerns noted in paragraph 52, staff consider that:

(a) the phrase in ED 320 "assume the subject asset presently does not exist" should for greater clarity be refocused on the fact that the market participant buyer does not possess the asset. Focusing on the market participant buyer not possessing the asset should make more sense, both for the assumption that the asset is replaced in its existing location and the inclusion of removal/disposal costs of unwanted existing structures on land (consistent with draft paragraph F10 in paragraph 9); and

(b) the example in paragraph F15(c) of replacing the surface component of a road is incompatible with assuming that the asset presently does not exist. Staff recommend replacing this example with an example of replacing an entire asset and moving it to an Illustrative Example (see draft Illustrative Example 3A regarding rail infrastructure, set out in paragraph 90 below).

56. **Concern 2: When a part of an asset (rather than the whole asset) is replaced, applying the concept that 'the subject asset presently does not exist' may have practical challenges.** For example, if one prison wing is replaced, rather than assuming the entire prison is needed to be hypothetically constructed (assuming it presently does not exist), additional disruption costs would need to be incurred, such as relocating inmates while that one wing is being replaced. That is, the CRC of the subject asset might be different depending on whether the entity assumes:

(a) the entire prison will be replaced (because F14(b) would require an entity to assume the prison does not presently exist), in which case no inmate-relocation costs would be included in the subject asset's CRC; or

(b) the prison will be replaced in different phases, in accordance with the entity's ordinary course of operation. This is because F15(c) states that the entity consider the costs "in the context of the entity's expected manner of replacement in the ordinary course of operations".

Staff analysis

57. This concern raises a difference between:

(a) the objective of a fair value measurement under the cost approach – to estimate the amount that would be required currently to replace the service capacity of an asset (AASB 13 paragraph B8); and

(b) replacement cost estimates based on the method of replacement expenditures that the holder of the subject asset typically would incur for parts of the asset over the asset's life.

Data for the current cost of replacing an asset on a piecemeal basis might be more readily available from the entity's own records than data about the cost of replacing the asset in its entirety in one step, and might be preferred from a whole-of-life cost management perspective (eg aligning obsolescence/depreciation expense measurement with expected actual replacement costs) – however, they might not be fully consistent with the objective of a fair value measurement.

Consistent with paragraph 55(a), staff consider that under the cost approach it should be assumed that "the market participant buyer does not possess the asset"; and therefore, it should be assumed that the asset would be replaced in one complete step, rather than piecemeal replacement while operating the asset. However, staff acknowledge that there would be situations in which data about costs to replace the asset entirely in one step are not reasonably available and NFP public sector entities arguably would need a practical expedient in order to measure the CRC of the asset.

58. In that regard, staff note that, as discussed in Agenda Paper 8.4: Market participant assumptions, the Board decided to re-express the guidance in paragraph 89 of AASB 13, to require an entity, when developing unobservable inputs, to start with its own assumptions and adjust those assumptions if reasonably available information indicates that other market participants would use different data.

59. Staff note that AASB 13 paragraph 89 already conditionally allows an entity to use its own assumptions in estimating an asset's replacement cost, providing a practical expedient for measuring assets for which data about replacing the asset in its entirety are not reasonably available. Importantly, staff consider that the Board's proposal in ED 320 to re-express the guidance in AASB 13, as elaborated on in draft paragraphs F13(b) and F15 in paragraph 9 above, would make that practical expedient more readily apparent.

60. **Concern 3: It would be difficult to reliably measure all 'necessary' and 'intrinsically-linked' costs**. Because fair value measurement is based on hypothetical, rather than actual, asset construction, there could be a wide range of assumptions that would be applied to consider which costs are necessary or intrinsically linked to a hypothetical construction.

61. **Concern 4: Disruption costs are difficult to estimate.** For example, works causing a road closure would vary every time an entity would recreate these works. Similarly, for wet weather charges, the length of the closure may vary each time the particular asset was to be renewed.

62. **Concern 5: Some costs are less visible to valuers and thus may currently be excluded from valuations.** Some costs, such as costs to remove asbestos or relocating power lines owned by

another entity, although capitalised when initially incurred, lose visibility over time. Therefore, many such costs are not currently hypothesised by valuers when developing a cost approach valuation. Requiring such costs to be included in a subject asset's CRC would lead to a possible change in practice.

Staff analysis

63. In respect of concerns 3–5, staff consider that the concept of a hypothetical asset acquisition/construction under the cost approach inevitably requires the exercise of judgement, sometimes with few market inputs available.

64. As mentioned in paragraphs 58–59, AASB 13 already conditionally allows an entity to use its own assumptions in estimating an asset's replacement cost, and providing a practical expedient for measuring assets for which data about replacing the asset in its entirety are not reasonably available.

65. Staff noted that the comments respondents provided in explaining concerns 3–5 are mainly related to assets that would be subject to the guidance in AASB 13 paragraph 89. Therefore, the proposed paragraph F6 (if the Board proceeds with its proposal in Agenda Paper 8.4) – in which case the entity would be required, when measuring the fair value of those assets, to use its own assumptions as a starting point and adjust those assumptions if (and to the extent that) reasonably available information indicates that other market participants would use different data – should help address those concerns.

66. Staff consider that proposed paragraph F7 in Agenda Paper 8.4, which states that "… Exhaustive efforts need not be undertaken to identify whether relevant information about other market participant assumptions is reasonably available or whether the entity's own data should be adjusted" should also address concerns 3–5 noted above. This is because the entity should have access to its own data and would only be required to adjust those data if relevant information about other market participant assumptions:

    (a) is reasonably available; and

    (b) differs from the entity's own data.

67. Depending on the Board's decision in Agenda Paper 8.4, staff consider that the IG can be amended to clearly state that, where paragraph F6 applies, when applying the cost approach to measure the fair value of an asset, the entity would be required to use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data.

Section 1.2: Staff recommended changes to the proposed IG

68. In response to concerns 3–5 above about respondents' comments that it might be difficult to identify which costs are necessary costs or to measure such costs reliably for the purpose of measuring an asset's CRC, staff observe that paragraphs 29 and 31 of AASB 116 *Property, Plant and Equipment* state that the revaluation model may be applied to an item of property, plant and equipment whose fair value can be measured reliably. Arguably, if part of the CRC of an asset cannot be measured reliably due to insufficient available evidence, the reliable measurement requirement in AASB 116 may be met by excluding those costs (rather than having to exclude the asset from fair value measurement).

69. Staff consider that it would be appropriate to provide relief around 'reliable measurement' from including those costs in CRC (fair value) estimates—in effect, spelling out the application of paragraphs 29 and 31 of AASB 116. Providing that relief should generally avoid imposing unduly costly estimation processes in relation to these costs, and thereby address the main concerns expressed by ED 320 respondents about the Board's proposed guidance on application of the cost approach.

70. However, it is important to note that the IASB did not include an explicit 'reliable measurement' criterion in IFRS 13 for fair value measurements. In view of the inexact nature of many fair value estimates and the widespread use of hypothetical assumptions about assets for which Level 1 or Level 2 evidence of fair value does not exist, staff are concerned that if the 'reliable measurement' criterion were expressed as a hurdle to including particular costs in a CRC estimate, it might have an unintended consequence of triggering considerable cost and effort in establishing (and obtaining assurance) that each cost referred to is measured 'reliably' – and might spur requests for guidance on what constitutes a sufficiently 'reliable' estimate.

71. Therefore, instead of introducing a 'reliable measurement' criterion to AASB 13, staff recommend stating in the Amending Standard that costs may be omitted where data about them are not reasonably available. Specifically, staff recommend paralleling the language of paragraph 89 of AASB 13 regarding unobservable inputs (which is also used in the proposed guidance on market participant assumptions discussed in Agenda Paper 8.4), stating in draft paragraph F15 (in paragraph 9) that:

> "An entity need not undertake exhaustive efforts to obtain information about the costs referred to in paragraph F14. However, an entity shall include all such costs for which data are reasonably available."

72. In addition, staff consider that the proposed IG in paragraph 15(a) of ED 320 that 'once-only costs' are included in the replacement cost of the subject asset would become unnecessary in view of the draft IG in paragraph F11 that a subject asset's CRC is the cost to a market participant buyer to acquire or construct the reference asset. For the sake of conciseness, staff recommend omitting the comment about 'once-only costs' from the implementation guidance and including it instead in the Basis for Conclusions.

Section 2: The practical application of hypothetically replacing the subject asset in 'the most economical manner" (SMC 14)

73. ED 320 paragraphs F15(c) proposed that, when measuring an asset's fair value using the cost approach, a subject asset's CRC should include all necessary costs required to be incurred in the context of the entity's expected manner of replacement in the ordinary course of operations, rather than necessarily including only the cheapest legally permitted costs to the entity.

Respondents' feedback

74. Twelve ED respondents included a response to SMC question 14. Those who responded generally agreed with the Board's proposed IG. Those who did not express clear agreement or disagreement with that proposal expressed some concerns about either its consistency with other proposed guidance or its clarity.

Agree	Not completely agree/disagree	Disagree	No comment
8	**2**	**2**	**4**
S2–APV S3–HoTARAC S4–EY S7–KPMG S9–CA & CPA S10–API S13–ABS S15–Deloitte	S12–ACAG S16–Tony Blefari	S8–IPA S14–Liquid Pacific	S1– Cessnock City Council S5–Blacktown City Council S6–PwC S11–Local Gov't Professionals NSW

Respondents' reasons for agreeing with the proposed IG

75. Those who agreed with the proposed guidance in paragraph F15(a) of ED 320, or provided some support for the proposed guidance in paragraph F15(a) but did not clearly agree or disagree with it, expressed views that:

    (a) this is the most pragmatic approach to reflecting the asset's true value; [S9–CA & CPA]

    (b) the actual cost needs to be reflected, not a lower cost (that is to apply the extra cost of works during construction if applicable); [S10–API]

    (c) they agree with the proposal in paragraph F15(c) because a public sector entity may incur additional costs to meet community expectations, increase visitation to an asset or, through use of higher quality and cost materials, achieve a longer economic life for the subject asset. [S12–ACAG]

    (d) from a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs; [S13–ABS] and

    (e) in practice, advice would be sought from quantity surveyors and valuation professionals working with professional asset managers to determine the approach to valuing the asset. We observe that the proposals are reflective of our current experience as to practice in determining the replacement cost of assets. [S15–Deloitte]

Respondents' reasons for disagreeing with/having concerns about the proposed IG

76. S14–Liquid Pacific disagreed with the proposed IG in paragraph F15(c) of ED 320 and strongly implied it is unrealistic. Elaborating, they said: "If a market participant prices the cheapest legally permitted costs to construct an asset that delivers the same service potential, then they will likely take that path …".

Staff comment

77. In relation to the concern noted in paragraph 76, staff consider that if there are reasonably available data suggesting that a market participant would use cheaper costs than those of the subject asset's holder, then the cheaper costs should be used in measuring the subject asset's CRC. However, in the specific example in paragraph F15(c), about a replacement of a road, it would not be expected that another market participant would incur the cheaper day-time costs because it is not expected that a market participant would replace a road during the daytime due to the risk of traffic disruptions. As noted in paragraph 55, staff recommend replacing the example in paragraph F15(c) of ED 320 with an example of replacing an entire asset and moving it to an Illustrative Example (draft Illustrative Example 3A regarding rail infrastructure, set out in paragraph 90 below).

78. As mentioned in paragraph 67, staff recommend amending the IG to clarify that, where paragraph F6 applies, when applying the cost approach to measure the fair value of an asset, the entity would be required to use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data.

79. S16–Tony Blefari did not clearly agree or disagree with the proposed guidance in paragraph F15(c) and stated that the intent is agreed with; however, there is an opportunity to provide much clearer definitions of the costs that should be considered by an entity when determining CRC. Maybe a list of acceptable inputs when developing unit rates would be beneficial. The use of contractually cheapest costs can be biased on some parts versus others (eg asphalt rates based on regional volumes or a larger construction contract with an efficient rate for footpath construction, or a small rehabilitation project with low volume kerb has a very high unit rate). An opportunity would be to reinforce the fact that current replacement costs

exclude duplication of costs between assets interrelated as a result of design ie roads, pipes, kerbs, service conduits; and that appropriate rates sourced reflect the quantum of work and availability of resources.

80. **Staff comment:** Staff do not support adding the requested guidance referred to in paragraph 79, because it seems to refer to matters of detailed application of valuation principles.

81. S4–EY argued that the guidance should give consideration to the procurement method that would normally be adopted for such an asset, e.g. if a hospital is commonly replaced using a service concession approach rather than a potentially cheaper design and construct approach, the costs of the service concession approach should be considered.

82. **Staff comment**: Taking into account stakeholder feedback that sometimes replacing an asset through a service concession arrangement would involve a replacement asset engineered to a higher standard than the subject asset, staff recommend referring to service concession arrangements as examples of where it might be necessary to adjust for differences between the current service capacity of the reference asset and the subject asset. [Please refer to the proposed draft paragraph F11(a) in paragraph 9.]

83. S3–HoTARAC stated that guidance is strongly requested to clarify the application factors to consider on whether funding costs should be included in replacement cost measurements of fair value (but without mandating either the inclusion or exclusion of funding costs in every circumstance). A key determinant might be the entity's expected delivery model and how assets will be replaced, because this could determine the relevant market from which market participant assumptions should be drawn. For example, funding costs may be incurred through a centralised funding agency of Government (with little traceability to construction of specific assets) or a private sector financing arrangement (eg where a PPP consortium on-charges its funding costs to the Government, such that the funding costs are factored into the contract price and become a market participant assumption).

Staff comment

84. Staff disagree with providing guidance either on whether finance costs should be included in CRC, or on the factors to consider when making that decision. Providing factors would be tantamount to answering whether finance costs should be included, which the Board has decided would be incompatible with transaction neutrality (see paragraph BC126 of ED 320). In addition, identifying factors to consider might focus on whether finance costs are identified separately, whereas staff note the strong argument that whether finance costs are explicitly or implicitly included in the price to acquire or construct an asset should not make a difference to whether a market participant buyer of the subject asset would include finance costs in its pricing assumptions about that asset.

85. As noted in paragraph 67, staff consider that the guidance should be amended to clearly explain how to apply the Board's proposal about Market participant assumptions – to require an entity to use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data (if not all other market participant data required to measure the fair value of the asset is observable) – should be applied when measuring an asset using the cost approach.

86. In that respect, staff note that this is clearly explained in the Basis for Conclusions in ED 320. Paragraphs BC130–BC133 of ED 320 state that, in respect of many assets with specialised features, information about other market participants' finance costs specific to constructing the subject asset is unlikely to be reasonably available and therefore, applying paragraph F5(b) in ED 320, if the entity includes finance costs in the CRC of an asset, the holder of the asset would use its own assumptions in estimating the amount of those finance costs.

87. In respect of HoTARAC's request for guidance, staff considered whether those BC paragraphs, which do not address the question of whether finance costs should be included in an asset's CRC, should be included in the IG. Staff do not recommend doing so, because it would be likely to be difficult to confine IG on finance costs to just the issue in paragraphs BC130–BC133, in view of the demands from various public sector stakeholders for wider-ranging guidance on finance costs.

Question for Board members

Q3: Do Board members agree that no additional guidance should be provided on whether financial costs should be included in an asset's CRC? If not, please provide your alternative view and reasons for that view.

Section 3: Summary of staff recommendations – Costs to include in an asset's CRC

88. In summary, subject to the Board's decision in Agenda Paper 8.4, to address feedback received on practical concerns with identifying the costs to include in an asset's current replacement cost, staff recommend:

    (a) omitting ED 320's phrase "assume the subject asset presently does not exist";

    (b) adding a paragraph to the guidance to remind readers that, where paragraph F6 applies, when applying the cost approach to measure the fair value of an asset, the entity would be required to use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data (see draft paragraph F13(b) in paragraph 9);

    (c) providing a practical expedient that an entity need not undertake exhaustive efforts to obtain information about the costs referred to in paragraph F15(b) of ED 320, but shall include those costs if data about them are reasonably available (see paragraph 59 and draft paragraph F15);

    (d) adding illustrative examples to illustrate those concepts; and

    (e) omitting the comment about 'once-only costs' from the implementation guidance and including it instead in the Basis for Conclusions.

89. Staff's suggested revised guidance is included in paragraph 9 for the Board's consideration, to illustrate the staff recommendations.

Questions for Board members

Q4: Do Board members agree that the inclusion of draft IG paragraph F15, supported by draft paragraph F13(b)—referred to in paragraphs 88(b) and (c)—would be an appropriate response to concerns expressed that it might be difficult to identify which costs are necessary costs or to measure such costs reliably for the purpose of measuring an asset's CRC?

If not, please provide your alternative view and reasons for that view.

Q5: Do Board members agree with the staff recommended changes to the IG regarding the nature of costs to be included in an asset's CRC noted in paragraph 88?

If not, please provide your alternative view and reasons for that view.

Q6: Do Board members have any comments on the draft revised guidance in paragraph 9?

Section 4: Draft illustrative examples

90. Staff drafted for the Board's consideration the following examples to illustrate the proposed paragraphs F10–F16. Staff propose adding these to the two illustrative examples included in ED 320 (regarding the calculation of the CRC of a road), which staff will amend after the September Board meeting to reflect any changes to the IG decided by the Board, and to respond to stakeholder feedback.

Manner of replacing an asset: Example 3A illustrating paragraphs F6 and F13(b)

Fact pattern

IE1 The Transport Department of a Government (Department A) estimates the fair value of its rail infrastructure as at 30 June 20X1 using the cost approach. The cost currently required to acquire or construct modern equivalent rail infrastructure would differ materially, depending on whether that cost is estimated assuming construction during the daytime or at night (the more costly option). Because the construction of a rail infrastructure would require access to existing roads, works done at night would minimise disruption to drivers; however, there is no legal requirement for Department A to perform such work at night.

IE2 Based on its practice when it built the rail network 10 years earlier, Department A assesses that construction of the rail infrastructure would, in the ordinary course of operations, occur at night because construction of such infrastructure in the daytime would be incompatible with its objectives to avoid disruption to the community.

IE3 Department A determined that not all other market participant data required to measure the fair value of the rail infrastructure asset are observable, and there is no reasonably available information indicating that another market participant would construct rail infrastructure during the daytime.

Current replacement cost considerations

IE4 In accordance with paragraphs F6 and F13(b), Department A estimates the cost currently required for a market participant buyer to acquire or construct a reference asset by using its own assumptions as a starting point and adjusting those assumptions if reasonably available information indicates that other market participants would use different data.

IE5 Since there is no reasonably available information indicating that another market participant would construct rail infrastructure during the daytime, Department A uses the more costly night-time costs in its estimated current replacement cost of the rail infrastructure as at 30 June 20X1 rather than the lower daytime costs.

Manner of replacing an asset: Example 3B illustrating paragraphs F6 and F13(b)

Fact pattern

IE6 The Transport Department of a Government (Department B) estimates the fair value of its train carriages as at 30 June 20X1 using the cost approach. Department B determined that there are not observable market prices for completed suitable carriages, and not all other market participant data required to measure the fair value of carriages are observable.

IE7 The cost currently required to acquire or construct a modern equivalent train carriage would be 30% lower if it were manufactured overseas instead of in Australia. There is no legal requirement for the carriages to be manufactured in Australia. However, the Commonwealth Government provides significant funding assistance for both the public sector and the private sector the cost of acquiring or replacing public transport assets. The policy is that at least 50% of federally co-funded asset acquisitions must be

manufactured in Australia. The State Government controlling Department B has identified railway rolling stock as one of the asset types the replacement of which contributes to meeting that domestic 50% requirement.

IE8 Based on the Commonwealth Government's policy regarding Australian-manufactured content, Department B assesses that replacement of the train carriages would, in the ordinary course of operations, be achieved by their manufacture in Australia. There is no reasonably available information indicating that another market participant would acquire carriages overseas.

Current replacement cost considerations

IE9 In accordance with paragraphs F6 and F13(b), Department B estimates the cost currently required for a market participant buyer to acquire or construct a reference asset by using its own assumptions as a starting point and adjusting those assumptions if reasonably available information indicates that other market participants would use different data.

IE10 Since there is no reasonably available information indicating that another market participant would acquire carriages overseas, Department B uses the more expensive costs of Australian manufacture in its estimated current replacement cost of the railway carriages as at 30 June 20X1, notwithstanding the absence of a legal requirement for their manufacture in Australia.

Manner of replacing an asset: Example 4 illustrating paragraph F14(c)

IE11 Health Department C was transferred contaminated land in a State Park on 1 January 20X0, to be used to construct a quarantine facility. Department C incurred $5 million to decontaminate the land and $25 million to construct the facility building.

IE12 Department C:

(a) recognises land and improvements on land as separate classes of asset; and

(b) applies the cost approach in measuring the fair value of improvements on land.

IE13 As at 30 June 20X1, the fair value of the facility building was estimated. For simplicity:

(a) it is assumed that the value of land in the proximity of the State Park did not change between 1 January 20X0 and the measurement date of 30 June 20X1;

(b) the cost to construct the facility building did not change since its construction; and

(c) the profit margin attributed to decontamination costs by market participants when pricing the subject land is ignored.

IE14 The fair value measurements determined in accordance with paragraph F14(c) are noted for the following two scenarios:

(a) Scenario A: Available land in the proximity of the State Park was also contaminated. A parcel of land similar in size to the donated land has an estimated fair value of $15 million; and

(b) Scenario B: Available land in the proximity of the State Park was uncontaminated. A parcel of land similar in size to the donated land has an estimated fair value of $20 million.

Scenario A

IE15 In the particular circumstances of Department C, and assuming that the available land in the proximity of the State Park was also contaminated, the valuer concludes that the fair value of the land would be $20 million (ie $15 million value as contaminated land +

$5 million to decontaminate the land). This is because it would be expected that another market participant buyer would need to incur $5 million to decontaminate the land to be a fit-for-purpose site for the modern equivalent quarantine facility building, since the only available land in the proximity is also contaminated. Using the cost approach, the valuer concludes that the fair value of the quarantine facility building is $25 million.

IE16 Based on the valuation provided, Department C measures the fair value of the land and the quarantine facility as at 30 June 20X1 as $45 million.

Scenario B

IE17 In the particular circumstances of Department C, and assuming that the available land in the proximity of the State Park was uncontaminated, the valuer concludes that the fair value of the land would be $20 million. This is because another market participant buyer could hypothetically purchase uncontaminated land, in which case, it would not need to incur the $5 million decontamination cost. Using the cost approach, the valuer concludes that the fair value of the quarantine facility building is $25 million.

IE18 Based on the valuation provided, Department C measures the fair value of the land and the quarantine facility as at 30 June 20X1 as $45 million.

IE19 Under the assumed facts, the total fair value measurements for the land and the quarantine facility would be $45 million under each Scenario, although determined using slightly different processes. Specifically:

(a) In Scenario A, the reference parcel of land is contaminated and the subject parcel of land is uncontaminated (because Department C had already decontaminated the land). This difference in characteristic needs to be adjusted for in measuring the fair value of the subject parcel of land; and

(b) In Scenario B, the reference parcel of land and the subject parcel of land had the same characteristics (both are uncontaminated), and therefore no adjustment needed to be made for Department C having decontaminated the land.

IE20 If Scenario A were modified in one respect, ie to assume that the transferred parcel of land (the subject land) was uncontaminated, and retaining the assumption in Scenario A that available land in the proximity is contaminated, the valuer would:

(a) determine a value of $15 million for the reference parcel of land; and

(b) adjust that value by a $5 million increment for the value of the subject asset being uncontaminated, notwithstanding that Department C did not incur costs to achieve that advantage (because market participants would need to pay decontamination costs to achieve the service capacity of the subject land).

IE21 The outcome in paragraph IE20 would reflect that the market participant buyer, being unable to acquire uncontaminated land as an alternative to acquiring the subject asset, would be prepared to pay for the cost of decontamination when pricing the subject asset. This illustrates that the advantage of having uncontaminated land when the reference parcel of land is contaminated would be reflected in the valuation of the subject parcel of land even if the reporting entity had not incurred any costs to obtain that advantage.

IE15 This Illustrative Example does not indicate whether the value attributed by market participants to the subject parcel of land being decontaminated or uncontaminated ($5 million) would necessarily be included in the fair value of the land instead of being included in the fair value of the quarantine facility building. If it were included in the fair value of the facility building, it would be excluded from the fair value of the land.

Question for Board members

Q7: Do Board members have any comments on the draft illustrative examples?

Section 5: Suggested changes to the Basis for Conclusions

91. Staff propose including the following explanation in the Basis for Conclusions on the Amending Standard, mainly to address certain specific comments raised by respondents:

    (a) An estimate of an asset's CRC reflects the asset's conditions at the measurement date, which does not necessarily mean an entity needs historical records of all costs originally incurred to acquire or construct the asset and update those costs for changes in the prices of those types of costs since they were incurred. For example, a local government that would need to restore another entity's drainage works upon hypothetically replacing a road might be able to use engineering data for other roads either it, or another local government, has recently constructed/replaced without having historical data of disruption costs for the road being measured.

    (b) The need to include all necessary costs intrinsically linked to acquiring or constructing the subject asset does not preclude the use of unit rates or standard costing methodologies that approximate the total amounts of individual costs. Similarly, the implementation guidance does not mandate the unit of account for assets measured at fair value applying the cost approach.

    (c) The costs of dismantling and removing an item of property, plant and equipment and restoring the site on which it is located are excluded from the asset's CRC (see paragraphs A19, A24 and A25 in Appendix A for background).

    (d) Under the draft IG, the costs of removal and disposal of unwanted existing structures on land in paragraph F15(b)(i) of ED 320, and once-only costs, would not be double-counted with the entity's valuation of other assets (eg land) measured under the market approach, if a mix of market and replacement cost valuation techniques is used.

92. Staff will draft the Basis for Conclusions text based on the Board's decision at the September 2022 meeting.

Questions for Board members

Q8: Do Board members agree to include the above discussion points in the Basis for Conclusions?

Q9: Do Board members have any other comments on the respondents' comments in Appendix A and staff's responses to those comments?

Part D: Economic obsolescence

93. ED 320 proposed the following IG regarding economic obsolescence.

> ### Economic obsolescence
>
> F16 When a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows has suffered a reduction in demand for its services, the identification of 'external (ie economic) obsolescence' (referred to in paragraph B9) does not require a formal decision to have been made to reduce the physical capacity of that asset.
>
> F17 When an asset described in paragraph F16 apparently has surplus capacity in view of current demand for its services, economic obsolescence is not identified for that asset if that 'surplus capacity' is necessary for stand-by or safety purposes (eg to deal with contingencies), even if it seldom or never is actively utilised.
>
> F18 An example of where economic obsolescence of an asset would be identified when applying the principles in paragraphs F16 and F17 is a public school building that has a capacity for 500 students but, due to demographic changes, a school for 100 students would meet current and reasonably foreseeable requirements, including a buffer needed for any temporary or underestimated student demand. In this example, the school building's gross replacement cost would be based on the school's needed capacity (for 100 students), from which any other accumulated obsolescence related to the condition of the school building (eg physical obsolescence) would be deducted. Consistent with paragraph F16, this would be the case regardless of whether a formal decision has been made to reduce the school building's capacity.

Respondents' feedback

94. Ten ED respondents included a response to SMC questions 15 and 16 related to the identification of economic obsolescence in measuring an asset's CRC under the cost approach, on which guidance was proposed in IG paragraphs F16–F18 of ED 320. Of those 10 responses, 8 agreed with the Board's proposed IG:

Agree	Not completely agree/disagree	Disagree	No comment
8	**1**	**1**	**6**
S2–APV S3–HoTARAC S4–EY S6–PwC S9–CA & CPA S10–API S12–ACAG S13–ABS	S14–Liquid Pacific	S15–Deloitte	S1– Cessnock City Council S5–Blacktown City Council S7–KPMG S8–IPA S11–Local Gov't Professionals NSW S16–Tony Blefari

Respondents' reasons for agreeing with the proposed IG

95. Those who agreed with paragraph F16 and provided their reasons expressed the following views:

(a) S9–CA & CPA agreed with the reasons set out in Basis for Conclusions paragraphs BC134 – BC141, including seeking consistency with the IPSASB Conceptual Framework;

(b) S10–API noted that IVS 105 *Valuation Approaches and Methods* (paragraph 80.7) states:

> "Economic obsolescence may arise when external factors affect an individual asset, or all the assets employed in a business, and should be deducted after physical

deterioration and functional obsolescence. For real estate, examples of economic obsolescence include:

(a) adverse changes to demand for the products or services produced by the asset;

(b) oversupply in the market for the asset;

(c) a disruption or loss of a supply or labour or raw materials; or

(d) the asset being used by a business that cannot afford to pay a market rent for the assets and still generate a market rate of return."

(c) S12–ACAG stated that paragraph F16 is consistent with paragraph 22 of AASB 13, which requires an asset's fair value to be measured using the assumptions that market participants would use when pricing an asset. A market participant would not pay to replace an asset's existing capacity if they could replace its service potential with an asset with reduced capacity;

(d) S13–ABS commented that, from a macroeconomic statistics perspective, identifying economic obsolescence would not be limited to circumstances where a formal decision has been made to reduce the asset's physical capacity; and

(e) S14–Liquid Pacific stated that valuation practice requires assets to be valued based on market evidence, which necessarily includes supply and demand considerations. At the date of valuation, the demand for an asset's service potential should be measured against the demand for all similar assets and against the asset's own historical demand and future potential.

96. Those who agreed with paragraph F17 and provided their reasons expressed the following views:

(a) S9–CA & CPA commented that 'surplus capacity' is necessary for 'insurance' purposes and prudent asset management, and this approach is consistent with the IPSASB Conceptual Framework; and

(b) S15–Deloitte (classified as 'disagreeing' overall because of their views about paragraph F16) commented that 'surplus capacity' of an asset that is necessary for standby or safety purposes is common in the public sector, and to adjust for this type of 'surplus capacity' would create additional burden on reporting entities as well as the cost of managing the valuations.

Respondents' reasons for disagreeing with/having concerns about the proposed IG

97. **Decision making in the public sector can be a protracted process.** S15–Deloitte consider that decision making in the public sector can be a protracted process, and often options explored for reducing physical capacity are not executed for a range of policy reasons. It is more appropriate that the asset's physical capacity be derecognised only when a decision has been made to discontinue that capacity, rather than endeavouring to factor this into fair value measurement prior to a decision being made.

98. They supported the argument in paragraph BC136 of ED 320 for the alternative view, namely that unless and until a formal decision to reduce the asset's physical capacity has been made, it is highly unlikely to be clear whether and to what extent economic obsolescence exists. In addition, S15–Deloitte commented that:

(a) "… In the example given in paragraph F18 regarding the demographic changes and impact on student enrolments, we believe such a change does not necessarily indicate that the asset's value is overstated, but is rather an indicator the asset may not be used to its full capacity at that point in time. It is also not necessarily true that the value of the asset is reduced in these circumstances, as many of the facilities of a school (for example) are

necessary to operate at any capacity … in the circumstances described in proposed paragraph F18, we consider it would be more appropriate to base the assessment of obsolescence on the formal decisions of the public sector entity's governing body, noting a change in demographics would likely be a catalyst for the public sector entity to assess (and decide) whether part of the asset's physical capacity should indeed be reduced"; and

(b) paragraph F16 of ED 320 appears to contradict paragraph F5(b), which notes that, in the absence of relevant information about market participant assumptions, the entity should use its own assumptions as a starting point and adjust them where relevant.

Staff analysis

99. Staff disagree with the general thrust of the respondent's comments in paragraphs 97–98 because:

(a) they are akin to adopting a criterion that an impairment[5] must be 'permanent' to be recognised, which was adopted neither in AASB 136 *Impairment of Assets* nor (in relation to economic obsolescence) in IVS 105 – paragraph 80.2(c) of IVS 105 states that economic obsolescence can be temporary or permanent;

(b) IVS have a precedent for not waiting until a formal decision is made before taking changing external factors into account: namely, under paragraph 140.5 of IVS 104 *Bases of Value*, the *likelihood* of a change in legal restrictions affecting an asset would be taken into account in a fair value measurement;[6]

(c) fair value measurement is a process of valuation, reflecting the price that market participants would be prepared to pay for an asset based on available evidence of factors affecting that value. Price changes can reverse as different information becomes available and assumptions made under conditions of uncertainty change. Even in the case of impairment [applied for example to assets carried under the (historical) cost model], impairment losses can reverse as different information becomes available;

(d) even if options for reducing the physical capacity are not executed in circumstances like those illustrated in paragraph F18 of ED 320, this does not deny the possibility that a market participant buyer would be prepared to pay less to replace the asset's service capacity than the current cost of replacing the asset's total physical capacity;

(e) in relation to (a) above, requiring a formal decision to be made to reduce an asset's physical capacity could result in the reporting of information about the effects of external events affecting the service capacity of the asset, for which market participants would be willing to pay, being delayed – potentially for a considerable period;

(f) the other guidance on economic obsolescence in IVS 105 (to that mentioned in (a) above) is paragraph 80.7 of that IVS, quoted in paragraph 95(b) – which does not require a formal decision to reduce an asset's capacity to occur before identifying economic obsolescence; and

(g) as noted in paragraph BC138 of ED 320, the conclusion in the example in paragraph F18 is consistent with that in the IPSAS Conceptual Framework.

100. In addition, staff do not support the argument in paragraph 98(b) above, because staff consider that relevant information about market participant assumptions related to a fall in demand for

5 Note that paragraph 12(e) of AASB 136 identifies evidence of an asset's obsolescence as an indication that an asset may be impaired, requiring the asset's recoverable amount to be estimated.

6 Paragraph 140.5 of IVS 104 states that: "The determination of the highest and best use involves consideration of … (b) any legal restrictions on the use of the asset, eg, town planning/zoning restrictions … as well as the likelihood that these restrictions will change."

an asset's services can exist without a formal decision to reduce the asset's physical capacity (eg in the example in paragraph F18, a forecast 80% reduction in student demand would appear to be a relevant factor for assessing the assumptions of market participants).

101. **Concerns about the illustration of surplus capacity.** Similarly to S15–Deloitte's comment noted in paragraph 98(a) that despite a reduction in demand for enrolments, many of a school's facilities are necessary to operate at any capacity, S12–ACAG expressed concerns with the example in paragraph F18 considering economic obsolescence of a school purely based on enrolment numbers, and suggest expanding the example to provide greater insight into how the asset values have been attributed in the economic obsolescence adjustment, such as listing the assets:

    (a) retained at the same gross replacement cost, given those facilities will be needed regardless of the school's number of enrolments (eg administration office, cafeteria, toilet blocks, library, gym etc.) and other items that would likely fall into this category, eg classrooms; and

    (b) to which the economic obsolescence adjustment has been applied, adding how this adjustment was determined and why.

102. S14–Liquid Pacific stated that many assets are over-engineered to ensure service delivery does not wane over time and many assets operate at industry-accepted vacancy levels (ie have surplus capacity) – the test for the valuer is whether the service capacity is necessary. However, they also commented that:

    (a) in relation to the school example in paragraph F18, their immediate conclusion is an asset permanently operating at 20% of its capacity is not operating at its highest and best use;

    (b) while they agree economic obsolescence should be recognised in the school example, they do not agree on the method used to recognise that obsolescence. The approach in the example is considered by many entities to be a factor of a modern equivalent replacement cost, when it is not. The objective of conducting a valuation for fair value is to value the asset having regard to its future economic benefits, which requires the existing asset to be valued, not a hypothetical replacement; and

    (c) trying to account for obsolescence at the front end of the cost approach by adjusting the gross replacement cost requires significantly broad assumptions about the asset being valued (eg proportionality) and ignores what market participants might factor into their decision when considering the asset on an 'as is' basis (ie excessive maintenance and holding costs of surplus, continuing decline in student numbers, potential sale of surplus land, co-location opportunities, etc).

Staff analysis

103. Staff consider that the extent of elaboration of paragraph F18 requested by S12–ACAG (noted in paragraph 101) would involve opining on matters involving detailed valuation assessments (as opposed to simply illustrating some principles). Therefore, staff do not support adding the extent of elaboration requested.

104. However, staff propose making minor changes to paragraph F18 in response to the respondents' comments in paragraphs 98(a) and 101, as set out in paragraph 112.

105. Staff consider that the respondent's comments in the stem of paragraph 102 are compatible with the Board's proposed IG in paragraphs F17 and F18 of ED 320. In addition:

    (a) regarding the comments in paragraph 102(a), staff consider that the question of whether a school operating at 20% of capacity is used for its highest and best use would be likely to depend on the circumstances; if an asset is considered to provide an essential service, at least a portion of that asset could be considered to be deployed for its highest and best

use (in contrast with severable surplus capacity, which might warrant being valued for another use, subject to the constraints in the IG on identifying a higher and better use than the asset's current use);

(b) in relation to the comments in paragraph 102(b), staff observe that IFRS 13 paragraph BC30 states that the definition of fair value in IFRS 13 assumes a hypothetical exchange transaction. In addition, staff consider that the proposed guidance does refer to measuring the existing subject asset, but focusing on its service capacity (which paragraph B9 of AASB 13 indicates takes into account obsolescence); and

(c) staff consider that the comments in paragraph 102(c) raise matters of detailed valuation assessments, which the guidance in paragraphs F16 – F18 does not (and should not) attempt to cover.

106. **Practical difficulties in identifying economic obsolescence.** In addition, although S12–ACAG supported the Board's proposed IG in paragraph F16, it noted that: "in practice … it may be very difficult to find evidence to support the valuation of obsolescence and the wording in paragraph F16 'has suffered a reduction in demand for its services' is open to interpretation."

107. S9–CA & CPA suggested providing examples of scenarios in which such 'surplus capacity' can be identified to assist understanding of the concept.

108. S15–Deloitte also recommended that the Board considers expanding the circumstances in which the guidance in paragraphs F17 and F18 would apply beyond only stand-by or safety purposes. Surplus capacity can also exist in the absence of economic obsolescence where, for example, the asset is underutilised, but still necessary to meet the objectives of the entity in question. For example, a Technical and Further Education (TAFE) building may include a commercial kitchen that is necessary to be able to train students, but may only be used twice per week. Although the commercial kitchen is not utilised to its full capacity in this example, it is still necessary for the TAFE to have (and would be necessary to replace) to fulfil its objectives.

Staff analysis

109. Staff acknowledge the points made by S12–ACAG (noted in paragraph 106) that it may be very difficult to find evidence to support the valuation of obsolescence, and the wording in paragraph F16 of an asset suffering a reduction in demand for its services is open to interpretation. However, staff consider that this stems from the inherent nature of economic obsolescence assessments: such assessments seem inherently to involve the use of judgement in the context of changing circumstances and incomplete information about uncertain future events (akin to impairment assessments). Staff observe that paragraph 80.7 of IVS 105 identifies, without elaboration, "adverse changes to demand for the products or services produced by the asset" as examples of economic obsolescence, and consider that the Board's proposed guidance is consistent with that IVS guidance. Therefore, staff recommend not amending the proposed guidance in response to S12–ACAG's comments.

110. Staff agree with the suggestion noted in paragraph 107, and suggest adding to paragraph F17 (now draft paragraph F22 in paragraph 113) an example of 'industry-accepted' buffer capacity for electricity generation plant, where that buffer capacity is designed to cope with peaks in demand for electricity.

111. Regarding paragraph 108, staff agree with the conclusion of S15–Deloitte about the fact pattern they provide, but consider that this fact pattern is not an example of surplus capacity (rather, intensity of use that is lower than possible but sufficient to warrant a market participant buyer with similar objectives to those of the holder of the asset to replace the asset's entire physical capacity). Subject to that qualification, staff recommend adding the example provided by S15–Deloitte to the supporting Illustrative Examples.

Staff recommendation — Economic obsolescence

112. Staff note that the Board was requested to provide guidance on economic obsolescence and that its proposed guidance in paragraphs F16–F18 of ED 320 was strongly supported by those making written comments. Because of this, and for the reasons noted in the staff analysis above, staff recommend that the Board confirms its proposal to provide guidance on economic obsolescence (including that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity) but amends the guidance (from ED 320) to include the following:

    (a) adding to paragraph F17 (now draft paragraph F22) an example of 'industry-accepted' buffer capacity for electricity generation plant, where that buffer capacity is designed to cope with peaks in demand for electricity;

    (b) modifying the analysis of the example in paragraph F18 to state that the fall in demand for enrolments is a 'strong indicator' of economic obsolescence, rather than stating that "economic obsolescence … would be identified" (emphasis added);

    (c) adding a comment in paragraph F18 that there would typically be a non-linear relationship between a fall in demand for enrolments and a reduction in the facilities embodying needed service capacity (eg because of the need for administration buildings, toilet blocks etc.); and

    (d) including a new Illustrative Example that economic obsolescence does not necessarily arise where an asset is utilised with less intensity than physically is possible, eg a Technical and Further Education (TAFE) building that includes a commercial kitchen that is necessary to be able to train students, but may only be used twice per week. Although the commercial kitchen is not utilised to its full capacity in this example, it is still necessary for the TAFE to have (and would be necessary to replace) to fulfil its objectives as discussed in see paragraphs 108 and 111 (to be drafted after September 2022 meeting).

113. Staff's draft revised guidance is included below for the Board's consideration, to illustrate the staff recommendations.

Economic obsolescence

F21 When a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows has suffered a reduction in demand for its services, the identification of 'external (ie economic) obsolescence' (referred to in paragraph B9) does not require a formal decision to have been made to reduce the physical capacity of that asset.

F22 When an asset described in paragraph F21 apparently has surplus capacity in view of current demand for its services, economic obsolescence is not identified for that asset if that 'surplus capacity' is necessary for stand-by or safety purposes (eg to deal with contingencies), even if it seldom or never is actively utilised. An example of an asset with stand-by capacity that is necessary for operational purposes, and would be replaced in full by a market participant buyer, is an electricity generation plant that maintains a generating capacity buffer that is typical of the industry to cater for periods of peak demand.

F23 An example of a strong indicator that economic obsolescence of assets would be identified when applying the principles in paragraphs F21 and F22 is a public school's buildings that have a capacity for 500 students but, due to demographic changes, a school for 100 students would meet current and reasonably foreseeable requirements, including a buffer needed for any temporary or underestimated student demand. In this example, based on these assumed facts alone (for simplicity), the school buildings' gross replacement cost would be based on the school's needed capacity (for 100 students), from which any other accumulated obsolescence related to the condition of the school building (eg physical obsolescence) would be deducted. Consistent with paragraph F21, the conclusion reached would not be dependent on whether a formal decision has been made to reduce the school building's capacity.

F24	Where an asset or facility that is not held primarily for its ability to generate net cash inflows suffers a significant reduction in demand for its services, any economic obsolescence identified would not necessarily (and frequently would not) exhibit a linear relationship with that reduced level of demand. This is because some parts of an asset or facility might need to be replaced in full, or almost in full, despite a significant fall in demand for the services provided by the asset or facility (eg in the school example, the administration office, cafeteria, toilet blocks, library and gymnasium might need replacing even for 100 students, although perhaps on a slightly smaller scale).

Questions for Board members

Q11: Do Board members agree to confirm the Board's proposal to add IG in AASB 13 to state that identifying economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity (see paragraph F21)?

If not, please provide your alternative view and reasons for that view.

Q12: Do Board members agree with the remainder of Staff recommendation 4 in paragraph 112? If not, please provide your alternative view and reasons for that view.

Q13: Do Board members have any comments on the draft revised guidance?

Appendix A: Summary of respondents' comments on SMCs 10, 12 and 13

A1. This Appendix summarises respondents' responses to SMCs 10, 12 and 13 on the Board's proposals in paragraphs F14(b)–F15 regarding the nature of costs to include in an asset's CRC that are not specifically discussed in the body of the paper, and staff analysis therefore.

Respondents' reasons for agreeing with the proposed IG in F14(b)–F15

Overarching principle and once-only costs

A2. S3–HoTARAC, S10–API, and S15–Deloitte agreed with the Board's proposed overarching principle and that once-only costs should be included in the subject asset's CRC because:

(a) any cost directly attributable to acquiring or constructing an asset is consistent with the requirements of AASB 116 *Property, Plant and Equipment* (paragraphs 16 and 17), and should form part of the asset's CRC; and

(b) assuming the asset does not exist will enable capture of all costs that will be incurred to construct it initially and so will more accurately reflect the actual value represented by it.

A3. S15–Deloitte noted that the replacement cost should reflect how an entity would acquire an asset as if it were starting the acquisition process from scratch; accordingly, this would include once-only costs. They elaborated on that view as follows:

> "We have observed instances where there is an immediate adjustment to a newly constructed asset because of differences in how the cost of the asset is initially measured applying the principles of AASB 116 and the determination of the replacement cost under AASB 13. As an example, we have seen instances where costs such as site preparation works and project management fees have been appropriately incorporated in the initial measurement of an item of property, plant and equipment, but were subsequently not considered an appropriate input to the determination of fair value, resulting in practically immediate write-downs. Therefore, the clarification that the replacement cost is to be considered the replacement of an asset that doesn't presently exist should help to eliminate some of these counterintuitive fair value adjustments."

A4. S13–ABS stated that "… from a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs."

Removal and disposal costs and disruption costs

A5. S10–API commented that the demolition costs may be considered as part of the acquisition costs for achieving a vacant land equivalent; in other circumstances if an existing building is demolished it would be up to the entity to determine how to account for the demolition and any disruption costs.

A6. S3–HoTARAC commented that, based on the example in paragraph BC100, to assess the inclusion of costs of removal and disposal of unwanted existing structures on land, an entity would consider whether a market participant buyer would be able to acquire a vacant site in the area surrounding the existing location. Where there is a suitable vacant site available, the market participant is unlikely to incur removal and disposal costs, otherwise, the removal and disposal costs should be included in the current replacement cost of the asset.

A7. S15–Deloitte commented that disruption costs should be considered in representing the fair value based on the replacement of the asset, because disruption costs are part of the basis of the fair value assumptions, ie one of the factors a market participant would consider is that, by purchasing the asset rather than building a new one, they would avoid any costs of disruption and therefore would be willing to factor those avoided costs into their purchase price.

A8. S13–ABS explained its reason for supporting paragraphs F15(b)(i) and F15(b)(ii) as being that, from a macroeconomic statistics perspective, costs of ownership transfer and terminal costs should be included in the valuation of non-financial assets based on relevant observable inputs.

Respondents' reasons for disagreeing with the proposed IG in F14(b)–F15

S1–Cessnock City Council

A9. S1–Cessnock City Council disagree that all costs associated with the construction of an asset not currently in existence should be included in its CRC because:

(a) there is no legislation or guidance around 'natural' assets, which they currently expense;

(b) various 'site-specific' costs would be excluded from an external valuer's estimate of the typical cost to currently construct the asset. It stated that a valuer would instead apply a unit rate to the asset, thus avoiding the need to keep many thousands of records of site-specific charges, which would be unjustified; and

(c) relocation costs would not be required to be incurred again upon replacing an asset. It also stated that if relocation costs were included in CRC, the resulting depreciation write-off would be higher than necessary.

A10. Disruption costs are difficult to keep track of for revaluation purposes, eg works causing a road closure would vary every time an entity would recreate these works. Similarly, for wet weather charges, the length of the closure may vary each time the particular asset was to be renewed. The contingency percentage principle could be applied here instead of rates.

Staff analysis

A11. Staff consider that the recognition and measurement of 'natural' assets is beyond the scope of the project. The IPSASB is undertaking a project to address accounting for natural resources. Developing fair value guidance on this topic would probably raise inseparable issues and potentially substantially delay the issuance of Board guidance on fair value measurement by NFP entities.

A12. A reminder that an entity is permitted to use its own assumptions as a starting point in developing unobservable inputs would address some of the concerns. [See staff's proposed paragraph F13(b) in paragraph 9 of the paper]

S3–HoTARAC

A13. The submission by S3–HoTARAC indicated some HoTARAC members seek the Board's clarification of when costs of removal and disposal of unwanted existing structures on land should form part of the fair value of the structure to be built on the land, and when they should form part of the fair value of the land.

A14. **Staff analysis:** Regarding the request in paragraph A13, staff consider that:

(a) it is a matter for detailed valuation assessments, rather than belonging within the scope of Australian Accounting Standards; but

(b) nevertheless, staff support the suggestion to provide guidance that where the market value of land reflects the benefit of an entity having incurred costs of removal and disposal of unwanted existing structures on that land, and the land is valued using the market approach, that benefit should not be double-counted by including the removal/disposal costs in the CRC of improvements on that land (see staff's proposed paragraph IE15 in draft Illustrative Example 4).

S9–CA & CPA

A15. S9–CA & CPA stated that feedback from members of CAANZ and CPA-Australia indicates it would be difficult to reliably measure all the 'necessary' and 'intrinsically-linked' costs without

additional implementation guidance on these concepts, because the approach represents a hypothetical, rather than actual, asset construction and consequently could be open to a range of assumptions, including borrowing cost options and greenfield versus brownfield issues related to estimating construction costs.

S12–ACAG

A16. S12–ACAG commented that it is unclear how paragraph F14(b) interacts with paragraphs F15(b) and F15(c) of the proposed IG. For example, in relation to paragraph F15(b)(i), while it is assumed the asset does not presently exist, it is unclear which conditions surrounding the asset should be taken into account and how wide the surrounding area could be when considering the availability of suitable vacant sites if a market participant buyer was to instead construct the subject asset. In addition, paragraph F15(c)—with its example of replacing a surface of a road that already exists—directly contradicts the principle in paragraph F14(b) to assume that the asset presently does not exist.

A17. S12–ACAG also noted that the proposal that the subject asset does not exist may provide practical challenges regarding which costs to include when a part of an asset, rather than the whole asset, is replaced and gives rise to costs of removing and disposing of parts. In addition, while some entities may have actually incurred the once-only costs and therefore would have the relevant information, other entities may have inherited the land and infrastructure asset (e.g. from another public sector entity or a private sector developer) and therefore may not have the relevant information and would have to apply judgement and incur additional costs to estimate these hypothetical costs.

A18. As currently drafted, the current guidance in paragraphs F15(b)(i) and BC99 – BC106 will lead to inconsistent practices being adopted across the public sector and implementation challenges. In addition:

> "While some entities may have actually incurred the costs of removal and disposal of unwanted structures and therefore would have the relevant information, other entities may have inherited the land and infrastructure asset (e.g. from another public sector entity or a private sector developer) and therefore may not have the relevant information and would have to apply judgement and incur additional costs to estimate those hypothetical costs." …
>
> "If we adopt the premise in para. BC102(b) that acquiring the subject asset would save a market participant buyer from incurring those removal and disposal costs, then what should an entity look to when estimating this cost? Should the entity look to the surrounding built environment to make an estimate of this cost (or to determine if it is required at all) or property directly adjacent to the subject asset or to the assets that were previously on the site (even if this was an asset of similar nature and use)?
>
> As an example, a stadium has been demolished (old stadium) and a new stadium is constructed in its existing location. … it is not clear in this circumstance whether the costs or removing and disposing of unwanted structures at the measurement date would capture the cost of removal and disposal of the old stadium or if it would capture the cost of removal and disposal of typical structures that exist on surrounding properties? Or in this circumstance, if assessing from a market buyer perspective, would it be the approach that derives the lowest (avoided) cost outcome? An Illustrative Example would be helpful in clarifying this principle."

A19. S12–ACAG noted that, in paragraph BC106 of its Basis for Conclusions on ED 320, the Board did not rule out including in the CRC of an asset the costs of dismantling the asset and restoring the site on which the asset is located. However, ACAG considers that recognition of such costs would clearly contradict the principle in paragraph F14(b) of ED 320 that the asset is assumed not to presently exist. Therefore, ACAG argued, it would seem appropriate to clearly articulate

that these costs should not be recognised, unless an obligation has arisen under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* to restore the site, which would then trigger the accounting requirements in AASB Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Staff analysis:

A20. Staff's proposed paragraphs F13(b) and F15 are expected to address most of these issues.

A21. Regarding the 'replacement stadium' example, without commenting on the circumstances of a specific asset, staff think that in similar situations in which an old stadium has been removed, it is likely to be appropriate to apply the market approach to value the land because removal of the old stadium removes a difference between the characteristics of the subject parcel of land and reference parcels of land. If so, the proposed guidance on applying the cost approach would be irrelevant to measuring the fair value of the land component of the stadium property.

A22. If the cost approach were used, it is conceivable that the cost to replace the asset in its existing location (include the cost to remove the old stadium) would differ from the amount a market participant buyer would be prepared to pay to acquire the new stadium's service capacity. This might depend on whether the market participant buyer would have no choice but to acquire the subject asset in its existing location, applying the principle that the costs to remove unwanted existing structures on land would be considered necessarily incurred by a market participant buyer if that buyer has no choice to avoid incurring that cost.

A23. Nevertheless, a valuer might still conclude that the cost of removing the old stadium is a cost of acquiring the land valued in its condition as at the measurement date (which is post-removal)—ie, the removal of the old stadium increased the land's market value because an impediment to the land's marketability to other potential purchasers was removed—and therefore it would double-count the benefit of the old stadium's removal to include the cost of that removal to the CRC of the new stadium's facilities. A fact pattern where it is more likely that the market participant buyer would have no choice but to acquire the subject asset in its existing location, and the costs of the completed removal of unwanted existing structures on land would be considered necessarily incurred by a market participant buyer, is a fort constructed on a remote headland at the entrance to a harbour.

A24. In light of the comments noted in paragraph A19, staff consider that the Board should clarify that the costs of dismantling and removing an item of property, plant and equipment and restoring the site on which it is located should be excluded from measurement of the asset's CRC (if the asset's fair value is measured using the cost approach) because those costs would not be avoided by the market participant buyer as a result of acquiring the subject asset and therefore it is logical to conclude that a market participant buyer would be unlikely to pay for those costs when constructing or otherwise acquiring the asset. Consequently, the carrying amount of the asset would need to be adjusted by adding back an appropriate amount for any provision recognised under Interpretation 1 paragraph IE7(b).

A25. The issue was not one of the key issues the Board was asked to address by public sector stakeholders and the Project Advisory Panel, and was raised by some stakeholders in the context of consistency between the treatment of those costs and the costs to remove and dispose of unwanted existing structures on land (see paragraph BC101 of ED 320). Therefore, staff recommend clarifying in the Basis for Conclusions that the costs of dismantling and removing an item of property, plant and equipment and restoring the site on which it is located should be excluded from measurement of the asset's CRC, rather than by including it in the IG.

S14–Liquid Pacific

A26. S14–Liquid Pacific commented that the initial acquisition cost of land to establish infrastructure or a national park or reserve is highly unlikely to equate to its fair value (market value) after

acquisition, and upon subsequent revaluations the costs of acquisition do not replicate themselves. Similarly, professional fees (eg legal costs/conveyancing fees) are already factored into the market value of land.

A27. In addition, Liquid Pacific noted that where public sector entities incur excessive demolition costs for projects such as the creation of inner metropolitan transport routes, those costs should not be factored into either the value of the land or the costs of constructing the new infrastructure asset. This is because the cost of demolishing existing structures are sunk costs because the development of the transport corridor was not the highest and best use of the land at the time of acquisition (i.e. in these situations the market would rarely compensate the new asset's fair value for the costs incurred to construct it). Whereas, if the construction of the transport route required a tunnel through a hill or another similar one-off infrastructure cost, then we consider that cost should form part of the gross replacement cost for the cost approach to valuation. The test being the component is a continuing use of the asset and exists in its highest and best use, for which a market participant may attribute some value against that initial cost. However, we would clarify that, in a commercial environment the fair value (market value) of an asset constructed for the purpose of selling for profit would factor into its sale price any costs associated with the development, including the mandatory costs of restoring an asset not controlled by the developer. And, a further resale of that commercial asset continues to embody those costs.

Staff analysis

A28. Staff consider that the concern about some replacement costs do not equate to fair value should be addressed by the practising valuer selecting the appropriate valuation technique in the circumstances, rather than by Australian Accounting Standard.

A29. Staff note that a valuer's conclusion that some costs would not be compensated for by a market participant buyer would seem likely to be taken into account by that valuer in deciding which valuation technique (the market approach, the income approach or the cost approach, or a combination of some of those approaches) provides the best estimate of the asset's fair value.

A30. If there are insufficient market data to support appropriate application of the market approach for an asset, it might be problematic to identify that the market participant buyer would compensate the holder of the subject asset for some particular costs but not others. If the holder of the subject asset incurred exceptional costs because of, for example, suboptimal siting of that asset, the exceptional portion of those costs would seem unlikely to qualify as (per paragraph F14(b)) "necessary costs intrinsically linked to acquiring or constructing the subject asset".

A31. Staff consider that providing guidance on which costs would be compensated by a market participant buyer would be inappropriate, because such matters are matters of detailed valuation assessments and outside the scope of Australian Accounting Standards.

A32. Staff note that the view of S14–Liquid Pacific that the costs of demolishing existing structures in creating inner metropolitan transport routes are sunk costs (because the development of the transport corridor was not the highest and best use of the land at the time of acquisition) might be incompatible with applying a current use presumption for determining an asset's highest and best use (whether the version proposed in paragraph F9 of ED 320 or the version recommended by staff in Agenda Paper 8.3: Highest and best use). Staff also note that adopting that view of S14–Liquid Pacific might equally apply to the valuer's decision in specific circumstances regarding whether the cost approach should be used to estimate an asset's fair value, which is an issue outside the scope of the proposed guidance in ED 320.

S16–Tony Blefari

A33. S16–Tony Blefari commented using infrastructure as an example, the guidance could be open to interpretation regarding inputs/assumptions as to site details in terms of where assets are constructed and/or some costs can often be attributed to more than one asset due to construction practices. Also, including all costs may in some cases require relocating many other assets and services. Therefore, it is suggested that the guidance should be amended to:

> "The entity must include all necessary costs that would be required to currently replace the existing 'service capacity' of an asset, when there are no market participants. Careful consideration of costs are required to ensure that costs are not duplicated between assets.
>
> For example, when considering the cost to replace an existing pipe asset within a roadway, whilst in reality an organisation would excavate and be required to reinstate the road pavement and surface and/or move services controlled by other authorities, these costs must be excluded as they are accounted for either within the road asset and/or by other authorities."

A34. S16–Tony Blefari also suggested that, where once-only costs are incurred, the costs are assigned to a separate component and depreciated separately, to ensure that the annual depreciation is not misstated.

Staff analysis

A35. The suggestion to provide guidance "where there are no market participants" is not supported, because the Board decided not to provide guidance on the identity or existence of market participants, consistent with paragraph 23 of AASB 13 stating that an entity need not identify specific market participants (as alluded to in paragraph BC25 of ED 320).

A36. However, the staff's proposed paragraph F6 in Agenda Paper 8.4 explains how the "market participant assumption" concepts apply when the market selling price of a comparable asset is not observable; or when not all other market participant data required to measure the fair value of the asset are observable – if either situation occurs, the entity would be required to use its own assumptions as a starting point and adjust those assumptions if reasonably available information indicates that other market participants would use different data.

A37. In relation to the suggestion noted in paragraph A34, staff observe that:

(a) once-only costs relate to parts of assets with different useful lives than parts that are replaced at least once before the end of the useful life of the entire asset; however,

(b) the need to depreciate separately different parts of an asset with different useful lives does not stem of identifying once-only costs as part of the current replacement cost of an asset measured at fair value using the cost approach. In fact, that need also exists for parts of assets measured on the historical cost basis. Therefore, staff consider it unnecessary to add the suggested guidance.

S6–PwC

A38. S6–PwC stated that the "starting point" from which once-only costs should be identified is unclear, which may lead to diversity in practice. For example, should an entity consider the condition of the land and the structures as they were when construction commenced or a vacant property (with all once-only costs completed)? The former approach more directly aligns with the conceptual approach of the assets' replacement cost. However, determining the current day cost of those activities conducted years prior to the measurement date would be cost prohibitive. As such, some practical relief may be required.

A39. The inherent cost of land includes costs related to earth works, remediation, formation work and costs of clearing land for construction. These costs should generally be capitalised into the

cost of the land, which is a separate class of asset. Because land is typically valued using market pricing, we would not expect it is needed to further consider these costs. A market participant would be expected to consider land to have more value once these activities are undertaken and thus, they are inherently included in the market participant valuation. As such, where the land has been valued using a market approach, once-only costs would typically not need to be further added.

A40. Design and engineering costs are clearly costs that a market participant would be required to incur again if they were constructing such an asset. These costs are typically (and appropriately) included in a cost valuation by valuers.

A41. Other less visible costs are certain costs necessary to be incurred that are less visible to valuers and thus may currently be excluded from valuations, e.g.:

- asbestos removal from an existing building;
- relocating power lines or 'returned works' assets (i.e. utility assets) that are owned by another entity;
- remediating damage to footpaths/roads;
- constructing assets required to be given to a third party;
- demolition costs related to the compulsory acquisition of properties; and
- borrowing costs.

While these costs are capitalised as a necessary cost of getting an asset to its intended use, they are not costs that valuers would currently hypothesize when developing a cost approach valuation, leading to a possible change in practice.

A42. In addition, PwC proposed that guidance be included to remind readers not to double-count the value of once-only costs if a mix of market and replacement cost valuation techniques is used, eg where once-only costs enhance the market value of land measured using the market approach, they should not also be included in the CRC of improvements on that land PwC also suggested adding Illustrative Examples to illustrate this point.

Staff analysis

A43. The 'starting point' for considering once-only costs should, in principle, be the current conditions (including market conditions and the current operating environment) of the subject asset. As stated in paragraphs BC94 and BC95 of the Basis for Conclusions on ED 320, the Board rejected (in principle) the view that an asset's CRC should be based on the current market buying prices the entity would need to incur at the measurement date to perform the construction work it performed when it first constructed the asset. This is because an asset's fair value reflects the amount that would be required *currently* to replace the asset's service capacity.

A44. However, staff acknowledge that, from a practical viewpoint, historical data reflecting previous conditions affecting the asset (including, potentially, the types of costs incurred upon initial construction of the asset) might need to be considered to ensure asset-specific costs that a market participant would need to incur to obtain the asset's service capacity are not omitted. In that context, whilst the 'starting point' for identifying once-only costs is clear in principle, in practice it might be necessary to consider costs incurred many years earlier. Staff consider that where paragraph F6 applies and an entity would use is own assumptions as a starting point for measuring the CRC of an asset should allow entities to identify the cost currently required to incur to replace the service capacity of the asset.

A45. Staff observed that design and engineering costs are encompassed by the costs listed in Illustrative Example 1 in ED 320, but the Board could consider adding a specific mention of engineering costs to that example.

A46. Staff agree with the suggestion noted in paragraph A42 that guidance should be included to remind readers not to double-count the value of 'once-only' costs if a mix of market and replacement cost valuation techniques is used. This would in effect be achieved if the draft new Illustrative Example 4 on contaminated land in paragraph 95 is issued as part of the supporting material for the Amending Standard.