Explanatory Statement

Accounting Standard AASB 2022-10  
*Amendments to Australian Accounting Standards –**Fair Value Measurement of Non-Financial Assets of   
Not-for-Profit Public Sector Entities*

**December 2022**



# EXPLANATORY STATEMENT

## Standards Amended by AASB 2022-10

This Standard makes amendments to AASB 13 *Fair Value Measurement* (August 2015) for application by not-for-profit public sector entities.

## Main Features of AASB 2022-10

This Standard amends AASB 13 for fair value measurements of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows. Specifically, for such an asset, this Standard:

1. specifies that a not-for-profit public sector entity is required to consider whether the asset’s highest and best use differs from its current use only when, at the measurement date, it is:
2. classified as held for sale or held for distribution to owners in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*; or
3. highly probable that the asset will be used for an alternative purpose to its current use;
4. clarifies that the asset’s use is ‘financially feasible’ if market participants would be willing to invest in the asset’s service capacity, considering both the capability of the asset to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services;
5. specifies that, if both the market selling price of a comparable asset and some market participant data required to measure the fair value of the asset are not observable, an entity uses its own assumptions as a starting point in developing unobservable inputs and adjusts those assumptions to the extent that reasonably available information indicates that other market participants (including, but not limited to, other not-for-profit public sector entities) would use different data; and
6. provides guidance on how the cost approach is to be applied to measure the asset’s fair value, including guidance on the nature of costs to include in the replacement cost of a reference asset and on the identification of economic obsolescence.

### Application Date

This Standard applies prospectively to annual periods beginning on or after 1 January 2024. Earlier application is permitted.

### Marked-up Text

This Standard incorporates marked-up text to clearly identify some of the amendments to AASB 13. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

## Consultation Prior to Issuing this Standard

During the process of developing AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities* (July 2015) and consideration of Invitation to Comment ITC 34 *AASB Agenda Consultation 2017–2019* (November 2015), some stakeholders in the public sector asked the AASB to provide guidance clarifying how to apply the requirements in AASB 13 to the fair value measurement of public sector entity assets. Accordingly, the AASB decided to undertake a project to consider the need for modifications to AASB 13 to assist not-for-profit public sector entities to apply the principles in AASB 13 to the measurement of non-financial assets not held primarily for their ability to generate net cash inflows.

In 2018, the Board established a Project Advisory Panel to provide input to the project. The Panel consisted of public sector financial statement preparers, auditors and valuers, as well as representatives from the Australian Property Institute and the Australian Bureau of Statistics. Through consultation with the Panel, the AASB identified the fair value measurement topics on which guidance was sought by stakeholders.

However, shortly after the Panel’s meeting in May 2018, the project was paused due to the priority of other AASB work. In 2019, the Board resumed the project and held a further seven meetings with the Panel between 2019 and 2022.

In accordance with paragraph 20 of *The AASB’s Approach to International Public Sector Accounting Standards* (October 2019), in May 2021 the AASB issued ITC 45 *Request for Comment on IPSASB Exposure Drafts ED 76* Conceptual Framework Update: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements and ED 77* Measurement, to obtain Australian stakeholders’ views on two Exposure Drafts issued by the International Public Sector Accounting Standards Board (IPSASB) related to its Measurement project.

In respect of current value measurement of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows, ITC 45 included specific questions to Australian stakeholders about whether they would prefer that the AASB adopts the IPSASB’s proposed current operational value measurement basis (which was proposed to be an entity-specific entry value based on an asset’s current use) or continues to require the fair value measurement basis.

The AASB received six comment letters on ITC 45. Based on those comment letters and on the feedback received from related outreach activities, the AASB noted that a significant majority of stakeholders that responded to ITC 45, including not-for-profit public sector financial statement preparers, auditors and valuers, indicated that fair value under AASB 13 is appropriate for measuring the current value of all non-financial assets held by not-for-profit public sector entities, whether held primarily for their financial capacity or operational capacity, and should remain the sole current value measurement basis.

Accordingly, in March 2022, the AASB issued Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*, to propose modifying AASB 13 for application by not-for-profit public sector entities in measuring the fair values of non-financial assets not held primarily for their ability to generate net cash inflows.

The comment period for ED 320 closed on 30 June 2022. The AASB received feedback on ED 320 via sixteen comment letters, three virtual roundtables, meetings with its Project Advisory Panel and targeted consultation with key stakeholders. Other than one respondent who disagreed with most aspects of the ED 320 proposals, stakeholders generally supported modifying AASB 13 (to varying degrees) to assist not-for-profit public sector entities in applying the principles, but suggested significant refinements to the drafting of the modifications would help to address potential application issues.

Consequently, in October 2022, the AASB issued for comment a Fatal-Flaw Review draft version of the Standard that incorporated revised drafting of the proposed modifications. The AASB received comment letters on that draft Standard from three respondents to ED 320. The AASB also obtained feedback from the Panel and informal feedback from individual stakeholders.

The respondent who expressed disagreement with most aspects on ED 320 elaborated their concerns in their comment letter on the Fatal-Flaw Review draft Standard. The AASB concluded that the respondent’s comment letter on the Fatal-Flaw Review draft Standard did not provide new information that had not yet been considered by the AASB. Accordingly, the AASB decided to proceed with the modifications to AASB 13.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2022-10 as the amendments made to AASB 13 apply explicitly to not-for-profit public sector entities and do not have a substantial direct or indirect impact on business or competition.

## Legislative Features of Accounting Standards

### Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

### References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

### Copyright

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**Exemption from Sunsetting**

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunsetting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemptions and Other Matters) Regulation 2015* (Item 18(a)).

The AASB’s Standards incorporate Standards set by the International Accounting Standards Board in respect of publicly accountable for-profit entities. The AASB’s Standards are exempt from sunsetting because a more stringent review process than sunsetting applies to the Standards. This review process ensures Australia’s Accounting Standards regime remains consistent with international Standards. Typically, the AASB Standards are revised at least once within a ten-year period, with most of the Standards subject to much more frequent revisions. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunsetting regime would have very limited practical application to AASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

## Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the   
*Human Rights (Parliamentary Scrutiny) Act 2011*

### Accounting Standard AASB 2022-10 *Amendments to Australian Accounting Standards –* *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

### Overview of the Accounting Standard

This Standard amends AASB 13 *Fair Value Measurement* for fair value measurements of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows. The amendments clarify and illustrate how fair value measurement principles in AASB 13 should be applied by not-for-profit public sector entities in relation to such assets, in response to divergent practices that had developed as entities sought to apply AASB 13.

This Standard applies prospectively to annual periods beginning on or after 1 January 2024. Earlier application is permitted.

This Standard incorporates marked-up text to clearly identify some or all of the amendments to AASB 13. All amendments are incorporated using clean text into the compilations of the pronouncements when the compilations are prepared, based on the legal commencement date of the amendments.

### Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

### Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.