



**Valuers & Asset
Management**

Submission

IPSASB Measurement Consultation Paper

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About APV



What we do

APV provides specialist valuation, asset management and asset accounting services for a wide range of organisations and sectors. We enjoy close partnerships with our clients across Australia, including hundreds of local councils, state government agencies, manufacturing and transportation businesses, universities and not-for-profit organisations.

Our services include:

- Fair Value valuations: land, buildings, plant, equipment, roads, water, sewerage
- Asset accounting: valuation and depreciation methodologies, compliance reviews
- Asset management: asset management frameworks, plans and systems
- Customised training and professional development: asset accounting and asset management.

As leaders in our field, we are proud of our unblemished record of audit approval. However, uncompromising quality is simply our starting point: *we deliver more than just figures*. We tailor our services to meet client needs, helping them get the most from their assets and plan effectively for the future.

And while valuation and depreciation can be complex, we keep it simple. We're constantly evolving to offer customers more flexibility and control. We use leading methodologies and custom-built valuation tools that are compliant, comprehensive, logical and truly relevant.

Preliminary Views

Preliminary View 1—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View fair value, fulfillment value, historical cost and replacement cost require additional application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

APV agrees that additional application guidance is required. We note the vast inconsistencies that have evolved in Australia especially with respect to the 'cost approach' under Fair Value and the valuation of public sector specific assets such as restricted land.

These inconsistencies have recently been partly addressed by the AASB's special project for Fair Value in the public sector. Despite the effort involved and guidance issued by the AASB some jurisdictions, and of great concern some Auditors-General, seem unwilling to accept that their interpretations need to change because they are not consistent with AASB guidance.

For this reason, we strongly recommend additional guidance be developed via liaison with the AASB and very experienced practitioners who are in the best position to identify the types of interpretations that are commonly made inconsistently across different jurisdictions.

Preliminary View 2—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

APV agrees that a central measurement standard should provide generic guidance (similar to IFRS13) with specific guidance provided in individual standards as required.

The most likely standard to be impacted will be IPSAS17 or the proposed infrastructure and heritage standards. It is important that address the range of issues covered by the AASB special project for Fair Value in the public sector.

Likewise, it is important that they address the various depreciation expense related questions that APV has requested guidance on from the IPSASB over the past 18 months. It is worth noting that the IPSASB was unable to provide definitive answers or feedback to those questions. As such it is critical that such guidance be developed and included in the relevant standard.

Preliminary View 3—Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost—Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

APV agrees.

Preliminary View 4—Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value—Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

APV agrees.

Preliminary View 5—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value—Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

APV agrees.

Preliminary View 6—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost—Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

APV generally agrees but has specific comments as follows –

D3 & D13

We believe D3 and D13 are erroneous due to 'condition' and 'asset specification' being included in the wrong paragraphs. Under the standard we first need to determine the Replacement Cost and then based on relevant factors assess the remaining service potential to determine the Depreciated Replacement Cost.

The ‘condition’ of the asset is relevant to the determination of the ‘Depreciated Replacement Cost’ and not the ‘Replacement Cost’. Likewise the ‘specification’ of the asset is relevant to the determination of the ‘Replacement Cost’ not the ‘DRC’. I.e. Two identical assets used in the same way will have the same replacement cost irrespective of their condition. If one is a far worse condition than the other the Depreciated Replacement Cost would be expected to be lower.

The ‘condition’ of the asset should be moved to D13 and the ‘specification’ of the asset should be moved from D13 to D3.

D12

Agree with the comment. However, believe additional comment needs to e added to clarify that if the decrease in capacity is expected to be temporary (i.e. school numbers are expected be 500 again in 10 year) that the replacement cost should be determined based on 500 students.

D22

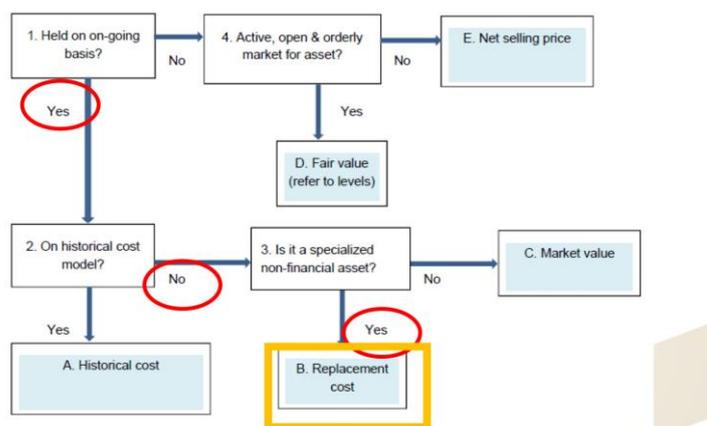
We agree with the comment however believe that this paragraph is either not required or needs to be enhanced to ensure there is no ambiguity. i.e. Confirm that the value is the full un-discounted cost of its replacement cost.

For many this paragraph will convey a belief that because the land is used as parkland that the value needs to be discounted from a market value of what it would cost the government to purchase the land.

This issue was recently considered by the AASB which concluded that the value of such land should be based on its replacement value and as the government would need to pay a full market price to obtain such land the replacement cost is the amount paid.

Under the proposed IPSASB framework such land would also be valued using DRC as it is held on an on-going basis, not held at historical cost and is specialized in nature as it is restricted for specific use and is not land held in freehold title.

Under both IFRS and IPSAS restricted land such as parkland should be valued at the full market rate that the government would need to pay in order for its acquisition.



D30 Difference between depreciation expense and Depreciation for valuation

While the standard highlights the need to adjust the replacement cost for the impact of obsolescence to determine the DRC it fails to highlight (as done in both IFRS and IVSC) standards that depreciation for financial reporting purposes (depreciation expense) is conceptual different from obsolescence (or depreciation) for valuation purposes.

Especially for highly material infrastructure assets that experience regular renewal there is no link between depreciation expense and the asset value. The value needs to be based on the assessment of the various obsolescence types and in the case of physical obsolescence includes asset condition.

We suggest paragraph D30 be enhanced to clarify that depreciation for financial reporting is conceptually different and not linked in any way to the assessment of the DRC.

Preliminary View 7—Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

APV agrees but notes that such practice may result in the financial statements of some smaller entities providing information that could easily be misconstrued as representing a true and fair picture of the financial performance.

Preliminary View 8—Chapter 3 (following paragraph 3.36)

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows: Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

APV agrees.

Preliminary View 9—Chapter 3 (following paragraph 3.42)

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

APV agrees.

Preliminary View 10—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

APV agrees.

Preliminary View 11—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

APV agrees.

Specific Matters

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

APV agrees.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

APV notes -

- There is no definition of Depreciated Replacement Cost
- The definition of Replacement Cost could be incorrectly construed as being the definition of Depreciated Replacement Cost. We recommend stating clearly that one is prior to adjustment for obsolescence and one is after the adjustment for obsolescence.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

APV agrees.



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