Reporting Update

14 July 2015, 15RU-011

Fair value disclosure relief for not-for-profit public sector entities

The Australian Accounting Standards Board has issued AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities* (AASB 2015-7).

AASB 2015-7 amends AASB 13 *Fair Value Measurement* to provide relief to not-for-profit public sector entities from certain disclosures about the fair value measurement of property, plant and equipment held for their current service potential rather than to generate net cash inflows.

AASB 2015-7 is effective for annual reporting periods beginning on or after 1 July 2016, and may be early adopted.

KEY POINTS

- **Limited disclosure relief from some fair value disclosures for not-for-profit public sector entities**
- **Disclosure relief relates to property, plant and equipment measured at fair value within Level 3 of fair value hierarchy**
- **Early adoption for 30 June 2015 available**

ACTION POINTS

- **Assess benefit of disclosure relief available**
- **Consider early adoption for 30 June 2015**
- **Where early adopting, ensure disclosure of this fact in financial statements**

Which entities does the relief apply to?

The relief applies only to not-for-profit public sector entities.

What does it apply to?

The relief applies to assets within the scope of AASB 116 *Property, Plant and Equipment* that are held primarily for their current service potential rather than to generate future net cash inflows. It applies to those assets that are measured at fair value and categorised within Level 3 of the fair value hierarchy.

What is the relief – what disclosures are entities relieved from making?

The relief relates to only some of the disclosures required by AASB 13 *Fair Value*. Specifically, the following disclosure is no longer required in respect of such assets:

- quantitative information about the significant unobservable inputs used in the fair value measurement
- a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement, and descriptions of any interrelationships between those inputs and how the those interrelationships might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement
- amount of the total gains and losses for the period included in profit or loss that is attributable to the change in unrealised gains or losses relating to the assets held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.

Illustration of disclosures that would no longer be required in relation to the first two bullet points above

The following table shows the valuation technique used in measuring the fair value of property, plant and equipment as well as the significant unobservable inputs used.

Class of property, plant and equipment	**Valuation technique**	**Significant unobservable inputs**	**~~Inter-relationship between key unobservable inputs and fair value measurement~~**
Buildings	*Income approach*: Under the income capitalisation approach the net market rental is capitalised at an appropriate yield as determined from comparable sales transactions. The analysis and selection of an appropriate yield is determined based on professional judgement.	• Capitalisation rate rates ~~(2015: 7 - 9%, weighted average 8.0%; 2014: 6.9 – 9.2%, weighted average 6.6%).~~	~~The estimated fair value would increase (decrease) if the expected capitalisation rate were lower (higher).~~
Leasehold improvements	*Depreciated replacement cost:* Under the cost approach the estimated cost to replace the asset is calculated and then adjusted to take into account the consumed economic benefit and/or obsolescence (accumulated depreciation). The consumed economic benefit and/or obsolescence has been determined based on professional judgment regarding physical, economic and external obsolescence factors relevant to the asset under consideration.	• Consumed economic benefit/ obsolescence of assets ~~(2015: 6 – 10%, weighted average 6.3%; 2014: 6 – 10%, weighted average 6.4%).~~	~~The estimated fair value would increase (decrease) if the expected consumed economic benefit/ obsolescence of assets were lower (higher).~~

When does the standard apply?

The standard is effective for annual reporting periods beginning on or after 1 July 2016, and may be early adopted.

An entity is able to early adopt a standard that is issued after the end of its reporting period but before its financial statements are finalised. This means that not-for-profit public sector entities are able to early adopt this standard for financial years ended 30 June 2015.

When an entity applies the standard to an earlier reporting period it must disclose this fact in its financial statements.