

Department of Foreign Affairs and Trade

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

7.2 Fair Value Measurements

The following tables provide an analysis of assets and liabilities that are measured at fair value. The remaining assets and liabilities disclosed in the statement of financial position do not apply the fair value hierarchy.

The different levels of the fair value hierarchy are defined below.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

Accounting policy

Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets. Land and buildings managed by the Overseas Property Office were independently valued by CIVAS as at 30 June 2019. Plant and equipment were independently valued by JLL as at 30 June 2019.

An annual assessment is undertaken to determine whether the carrying amount of the assets is materially different from their fair value. DFAT engaged JLL to undertake this review, and JLL has provided written assurance that the models developed are in compliance with AASB 13 Fair Value Measurement. DFAT's assets are held for operational purposes and not held for the purposes of deriving a profit. The current use of all non-financial assets is considered their highest and best use. DFAT's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

The methods utilised to determine and substantiate the unobservable inputs are derived and evaluated as follows:

Buildings and Leasehold Improvements - Replacement Cost of New Assets and Contracted Prices

DFAT also controls assets situated in locations where construction cost evidence is limited. In determining the replacement cost for new assets measured using the depreciated replacement cost approach, reference has been made to the available building cost information. The valuer has used significant professional judgement in determining the fair value measurements of these assets.

Leasehold improvements - Physical depreciation and obsolescence

Assets that are not transacted with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the Depreciated Replacement Cost approach. Under the Depreciated Replacement Cost approach, the estimated cost to replace the asset is calculated and then adjusted to take into account physical depreciation and obsolescence. Physical depreciation and obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration. For all leasehold improvement assets, the consumed economic benefit / asset obsolescence deduction is determined based on the term of the associated lease.

Land and Buildings - Adjusted Market Transactions, Estimated Market Rental Values and Capitalisation Rates

DFAT also controls assets situated in locations where property markets experience relatively few transactions. In determining fair value of these assets, reference has been made to available sales evidence together with other relevant information related to local economic conditions and property market conditions. The valuer has used significant professional judgement in determining the fair value measurements of these assets.

Investment in the Efic Commercial Account and Tourism Australia

DFAT has determined that the reported net asset values represent fair value at the end of the reporting period.

Financial Liabilities at Fair Value Through Profit and Loss

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent fair value adjustments are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

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Note 7.2A: Fair Value Measurements, Valuation Techniques and Inputs Used

Fair value measurements at the end of the reporting period		Valuation Technique(s) and Inputs Used	
2019	2018	Category	
\$'000	\$'000	(Level 1, 2 or 3)	
Non-financial assets:			
Land	1,483,830	1,412,493	2
			Market Approach: This approach seeks to estimate the current value of an asset with reference to recent market transactions involving identical or comparable assets. Inputs: Prices and other relevant information generated by market transactions involving land assets were considered.
Land	489,708	408,677	3
			Market Approach Inputs: Prices and other relevant information generated by market transactions involving land assets were considered. Significant professional judgement has been utilised.
Buildings	173,597	175,554	2
			Market Approach Inputs: Prices and other relevant information generated by market transactions involving building assets were considered.
Buildings	3,235	1,764	3
			Market Approach Inputs: Prices and other relevant information generated by market transactions involving building assets were considered. Significant professional judgement has been utilised.
Buildings	570,765	568,481	2
			Income Approach: Converts future amounts (cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. Inputs: Market rental transaction of comparable assets, adjusted to reflect differences in price sensitive characteristics. Capitalisation rates as represented by the income produced by an investment, expressed as a percentage of the assets value.
Buildings	17,997	-	3
			Income Approach Inputs: Market rental transaction of comparable assets, adjusted to reflect differences in price sensitive characteristics. Capitalisation rates as represented by the income produced by an investment, expressed as a percentage of the assets value. Significant professional judgement.
Buildings	553,090	520,481	3
			Depreciated Replacement Cost: The amount a market participant would be prepared to pay to acquire or construct a substitute asset of comparable utility, adjusted for physical depreciation and obsolescence. Inputs: Current prices for substitute assets. Physical depreciation and obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the assets under consideration.
Leasehold Improvements	200,162	246,820	3
			Depreciated Replacement Cost Inputs: Current prices for substitute assets. Physical depreciation and obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the assets under consideration.

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Note 7.2A: Fair Value Measurements, Valuation Techniques and Inputs Used (continued)

Fair value measurements at the end of the reporting period				Valuation Technique(s) and Inputs Used
2019	2018	Category	(Level 1, 2 or 3)	
\$'000	\$'000			
203,384	226,996	2	2	Market Approach Inputs: Prices and other relevant information generated by market transactions involving plant and equipment assets were considered.
956	895	3	3	Market Approach Inputs: Prices and other relevant information generated by market transactions involving plant and equipment assets were considered. Significant professional judgement has been utilised.
99,899	53,004	3	3	Depreciated Replacement Cost Inputs: Current prices for substitute assets. Physical depreciation and obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the assets under consideration.
3,796,623	3,615,165			
Total Non-financial assets				
Total fair value measurement of assets in the statement of financial position				
3,796,623	3,615,165			
Assets not measured at fair value in the statement of financial position:				
2019	2018			
\$'000	\$'000			
19,141	-			Market Approach Inputs: Prices and other relevant information generated by market transactions involving land assets were considered.
				Market Approach. Inputs: Prices and other relevant information generated by market transactions involving build assets were considered.
477	-			
Total non-financial assets				
19,618	-			
Total assets not measured at fair value in the statement of financial position				
19,618	-			

1. In 2019, DFAT reclassified one land and one building in Manila to asset held for sale. The land and building were measured at fair value less cost to sell at 30 June 2019.

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Note 7.2B: Reconciliation for Recurring Level 3 Fair Value Measurements

Non-Financial assets - 2019					
	Land \$'000	Buildings \$'000	Leasehold improve- ments \$'000	Plant and equipment \$'000	Total \$'000
Opening balance - 1 July 2018	408,677	522,245	246,820	53,899	1,231,641
Total gains / (losses) recognised in other comprehensive income ¹	20,089	13,719	(50,685)	(8,563)	(25,440)
Reclassifications	-	-	-	-	-
Purchases	5,682	36,957	4,027	56,112	102,778
Disposals	-	-	-	(593)	(593)
Transfers into Level 3 ²	55,710	4,188	-	-	59,898
Transfers out of Level 3 ³	(450)	(2,787)	-	-	(3,237)
Closing balance - 30 June 2019	489,708	574,322	200,162	100,855	1,365,047

Non-Financial assets - 2018					
	Land \$'000	Buildings \$'000	Leasehold improve- ments \$'000	Plant and equipment \$'000	Total \$'000
Opening balance - 1 July 2017	368,704	377,602	279,316	55,522	1,081,144
Total gains / (losses) recognised in other comprehensive income ¹	23,537	21,718	(53,935)	(25,900)	(34,580)
Reclassifications	-	(14)	-	14	-
Purchases	-	-	24,298	104	24,402
Disposals	-	-	(2,859)	(4,297)	(7,156)
Transfers into Level 3 ²	18,318	123,497	-	33,204	175,019
Transfers out of Level 3	(1,882)	(558)	-	(4,748)	(7,188)
Closing balance - 30 June 2018	408,677	522,245	246,820	53,899	1,231,641

1. These gains / (losses) are presented in the Statement of Comprehensive Income under Depreciation and Amortisation, Write-down and Impairment of Assets, and change resulting from asset revaluation.
2. There have been transfers of land and buildings assets into Level 3 due to a combination of, limited market transactions, use of significant professional judgement, or a change in the valuation technique from the market approach to depreciated replacement cost approach.
3. There have been transfers of land and buildings assets out of Level 3 due to a combination of, the identification of market transactions, or a change in the valuation technique from the depreciated replacement cost approach to the market approach.