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| FRD 107 |  |  | Investment properties (April 2022) |
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| Purpose |  |  | To prescribe requirements for the measurement of investment properties subsequent to recognition and to provide guidance on identifying assets held for service delivery objectives. |
| Application |  |  | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act 1994*. Application by State owned corporations are encouraged. |
| Operative date |  |  | Annual reporting periods commencing on or after 1 July 2015. |
|  |  |  | FRD 107B *Investment properties* is renamed to FRD 107 *Investment properties* effective 1 April 2022. |
| Requirements |  |  | Not-for-profit entities – Properties held for service delivery objectives:  Properties held by not-for-profit entities to meet service delivery objectives are not investment properties and shall be classified as property, plant and equipment. The reason for classifying a property that would otherwise satisfy the definition of investment property as property, plant and equipment shall be documented and approved by the entity’s *Responsible Body*. |
|  |  |  | Measurement subsequent to initial recognition:  An entity shall measure its investment property (after recognition) using the fair value model unless the entity has received prior written approval from the Assistant Treasurer to use the cost model. |
|  |  |  | The investment properties shall be measured at fair value with regard to an asset’s highest and best use (HBU) from the perspective of the market participant, taking into account any legal, financial or physical restrictions imposed on the use or sale of the asset. |
|  |  |  | An entity’s current use of the investment property shall be its HBU unless any HBU indicators suggest that a different use by market participants would maximise the value of the asset. For guidance, refer to Guidance on the application of FRD 103 *Non-Financial Physical Assets*. |
|  |  |  | Fair value assessments shall be conducted annually such that the investment property reflects the fair value at the end of the annual reporting period, after taking into consideration all fair value indicators, which include VGV Land and Building Indices, the HBU and other relevant indicators. |
| Definitions |  |  | Responsible Body means for a:  Government Department, the Accountable Officer; and  every other public sector agency, the board.  Refer to paragraph 5 of AASB 140 *Investment Property* for the following definitions:  Cost;  Investment property; and  Fair value. |
| Guidance |  |  | In December 2000, the Victorian Government issued the policy titled ‘[*Sustaining Our Assets*](http://www.dtf.vic.gov.au/DTF/RWP323.nsf/0/7676b730bfda25ed4a2569de00261615/$FILE/ampolicy.pdf)’ which outlines the Government’s direction in meeting the service delivery requirements of present and future Victorians. |
|  |  |  | The principles of the *‘Sustaining Our Assets’* policy derive from the central principle that service delivery needs form the basis of asset management practices and decisions. Service delivery needs comprise social, economic and environmental needs across the State of Victoria. These are defined in a variety of documents including legislation (general or specific legislation, establishing act for an entity, etc.), government policy documents (budget papers), ministerial policy directions, entity corporate plans and entity internal policy documents, etc. |
|  |  |  | Property that is held by a not-for-profit entity to meet service delivery objectives of the State of Victoria (whether directly or indirectly) rather than to earn rental or for capital appreciation, does not meet the definition of investment property. Such property holdings could include those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property. An example of such holdings is properties held by the Director of Housing as part of its public housing assistance programs. It is expected that most properties held by government shall be treated as property, plant and equipment. |
|  |  |  | However, if the property is classified as an investment property, AASB 140 requires the fair value to be determined at the reporting date. |
| Relevant pronouncements |  | 7.1 | AASB 13 *Fair Value Measurement*  AASB 116 *Property, Plant and Equipment*  AASB 140 *Investment Property* |
| Background |  | 8.1 | AASB 140 allows entities to measure investment property using:  the fair value model, under which an investment property is measured, after initial measurement, at fair value with changes in fair value recognised in profit or loss; or  the cost model specified in AASB 116 under which an investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). An entity that chooses the cost model also needs to discloses the fair value of its investment property in a financial note.  This FRD limits the choice provided by the Australian Accounting Standards Board in relation to the above two models. The fair value model has been determined to be the relevant method of reporting across government. It also aids harmonisation with the Government Finance Statistics framework.  AASB 13 sets out a single framework for measuring fair value with regard to the HBU and the disclosures relating to fair value measurement. |
|  |  | 8.2 | This FRD was revised in:  June 2016 to remove the ‘Model for Disclosure within Financial Report’ section as this disclosure has been included in the *Model Report for Victorian Government Departments*.  April 2022 to:  Update references to the Minister for Finance to Assistant Treasurer; and  Update a reference to a guidance document that was previously an appendix in FRD 103 *Non-Financial Physical Assets.* |