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CNOCP
Conseil de normalisation des comptes publics

Paris, 9th June 2011

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Ms Stephenie Fox
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Re: Consultation Paper

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurements of Assets and Liabilities in Financial Statements

Dear Ms Fox,

I am writing on behalf of the French "Conseil de normalisation des comptes publics" (CNOCP)[1] to express its views on the above-mentioned Consultation Paper[2].

The CNOCP supports the publication of the three consultation papers on the Conceptual Framework for public sector entities by the IPSAS Board. This consultation on a fundamental subject represents a significant step towards the development of an accounting framework for public sector entities.

The CNOCP particularly welcomes the detailed examination of the needs of the users of financial statements and of the objectives of the latter, as well as of the general approach to preparing the accounts, and of the consequences of the previously mentioned choices for the selection of measurement bases.

1 See Appendix 1
2 See the French original version in Appendix 3.

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The Consultation Paper, which is a basis for discussion, sets out the different possible measurement bases applicable in the financial statements - historical cost, market value, replacement cost - and presents the deprival value model approach, as well as combinations of these bases and approaches.

The CNOCP has examined the different measurement bases in the light of the choices made in the first two consultation papers, taking into account their relevance for the public sector. The CNOCP has expressed a preference for the revenue and expense-led approach in its reply to the first Consultation Paper of the IPSAS Board. In order to be consistent in the reply to the second paper, it indicates that the historical cost basis is considered the preferential method for public entities, but also points out the possibility to apply to other bases according to the elements to be measured.

The historical cost basis leads to measurement at acquisition cost at the date of initial recognition by an entity. In France, its use is widespread in the accounts of Central Government, public establishments, local authorities and social security organisations. This basis has the advantage of being simple and meets the objectives of users of financial statements (identified in the exposure draft for phase 1). In addition, this is the basis used by public entities for the long-term management of their assets.

Where it is not possible to apply the historical cost basis, it is however possible to use other bases for measuring an asset, such as market value. Lastly, if the preceding bases are not suitable, replacement cost may also be used. On the other hand, the CNOCP considers that deprival value is particularly complex and in addition refers to notions of net selling price and value in use which are not considered appropriate for the accounts of Central Government and public entities.

I hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Michel Prada

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APPENDIX 1

DETAILED COMMENTS

1. *Should the role of the framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?*

The CNOCP believes that in the Conceptual Framework it has to be consistent with the choices made in the two previous consultation papers (Conceptual Framework Exposure-Draft and Consultation Paper Elements and Recognition in Financial Statements); **it recommends that the appropriate measurement bases should be specified for the financial statements of public sector entities on the basis of these choices without linking one basis to a specific type of asset or liability**.

However, the CNOCP is not in favour of selecting a single measurement basis.

2. *If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?*

- *Single Measurement Bases*
  - *(a) Historical cost*
  - *(b) Market value*
  - *(c) Replacement cost*
- *Combinations of Bases/ Approach*
  - *(d) Deprival value*
  - *(e) Historical cost and market value*
  - *(f) Replacement cost and market value*
  - *(g) Historical cost, replacement cost and market value*
- *Others*

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(h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

The CNOCP supports a combination of measurement bases: historical cost, market value and replacement cost. Moreover it wishes to establish a hierarchy for these measurement bases.

The traditional method is historical cost. However, according to the type of elements to be measured other bases may be used.

The historical cost basis leads to measurement at acquisition cost at the date of initial recognition by an entity. In France, its use is widespread in the accounts of Central Government, public establishments, local authorities and social security organisations, who manage their assets over the long term. This basis is appropriate for the revenue and expense-led approach. What is more, it has the advantage of being simple and meets the objectives of users of financial statements (identified in the exposure draft for phase 1).

However, Central Government and certain public establishment have specific characteristics with regard to the lasting nature of their actions and the nature of their assets, so that for these entities acquisition cost is either unknown or not significant. **Where it is not possible to use historical cost, because it is unknown or out-dated, market value may be used**, particularly if the asset is actively managed. In order to measure assets on this basis, reference must be made to transactions in assets of a similar nature. In the absence of a liquid market for such transactions, estimations are authorized by accounting standards.

The CNOCP considers however that this basis is inappropriate for measuring liabilities, in particular Central Governments financial debt.

Lastly, in certain specific cases, replacement cost may be used as a last resort although; in some cases the assets and liabilities of Central Government are by nature irreplaceable. As an illustration, depreciated replacement cost is used in the accounts of Central Government to measure

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road infrastructures, the acquisition cost of which is unknown and for which there is no recognized or identifiable market value.

A specific additional comment is required to deal with the measurement of financial assets and liabilities. The financial debt of the French Central Government is measured at historical cost according to current accounting standards (see Central Government Accounting Standards Manual). Additional information in relation to measurement at market value is disclosed in the notes. To improve the quality of the information provided, further disclosures – for example the presentation of the debt showing the effective interest rate –should be considered.

3. *The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model. In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).*

The Consultation Paper presents successively the different possible measurement bases and approaches. It describes the main advantages and limits of these different approaches. The CNOCP agrees with these presentations which it considers balanced.

It should however be noted that the concept of deprival value is unclear; in addition, this approach, rather irrelevant for liabilities, does not provide useful arguments for assets. We therefore question whether it should be mentioned.

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4. *In your view, should:*

(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and

(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

(a) On initial recognition of a financial liability, the CNOCP considers that the credit risk related to the issue is an integral part of the instrument, and should not be measured separately.

(b) On subsequent measurements, the CNOCP is not in favour of measuring financial liabilities at market value, because in their vast majority the Central Government's liabilities are made up of debt instruments intended to be held to maturity.

5. *In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:*

(a) Only the service potential relating to the existing use; or

(b) Include the incremental value relating to its possible sale for an alternative use?

(a) The CNOCP does not wish to move towards accounting principles based on intentions, which would lead to revaluing an asset held for sale, and wishes the valuation to reflect the current use.

(b) Nevertheless, where property is for sale and the sales process is underway, if there are elements which indicate a sale will shortly occur and consequently the sales price is known, the CNOCP considers that an appropriate disclosure should be made in the notes.

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APPENDIX 2

CONSEIL DE NORMALISATION DES COMPTES PUBLICS (CNOCP)

1. Establishment of the "Conseil de normalisation des comptes publics" as Public Sector Accounting Standards Council and jurisdiction.

The Public Sector Accounting Standards Council was established by a Budget Amendment on the 30th December 2008 and supersedes the Public Accounting Standards Committee.

This new Council is in charge of setting the accounting standards of all entities with a non-market activity and primarily funded by public funding, including compulsory levies.

The Central Government and the agencies working for the Central government, Local authorities and local public institutions, Social Security and affiliated agencies are all within the jurisdiction of the CNOCP.

Extending the scope of the former Public Accounting Standards Committee which used to only regulate the French Central government accounting standards has empowered Public Finances with the ability to define consistent accounting standards for the whole of French Public Administrations.

2. Organization of the "Conseil de normalisation des comptes publics".

The Council is an advisory body under the authority of the Minister for the Budget which publishes preliminary advice on all the legislative texts concerning accounting issues relevant to any entity within its jurisdiction. It can also put forward new and innovative provisions and participates actively in the regulation of accounting standard on a national and international level. All this information is available to the public.

The Council is managed by a President appointed by the Minister for the Budget and any decisions are taken consensually by a College made up of eighteen members of whom nine are statutory and nine are external experts. The President and the College are supported by three standing commissions and a steering committee. The three standing commissions are as follows: "the Central Government and the agencies working for the Central government", "Local authorities and local public institutions", "Social Security and affiliated agencies"

The Council has at its disposal a permanent team of specialists who report to the President and who are managed by a General Secretary.

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APPENDIX 3

Here is the French original version of our response to the Conceptual Framework Consultation Paper on Measurements of Assets and Liabilities in Financial Statements dedicated to the French speaking people

Le Conseil de normalisation des comptes publics approuve la publication par l'IPSAS Board des trois documents de consultation relatifs au cadre conceptuel des entités du secteur public. Cette consultation constitue un réel progrès s'agissant d'un sujet fondamental pour la construction d'un référentiel comptable des entités du secteur public.

Le Conseil apprécie particulièrement qu'une réflexion approfondie soit menée sur la question des utilisateurs des états financiers et les objectifs de ces derniers, sur l'approche générale à retenir pour l'élaboration des comptes, et les conséquences des choix précédents sur les méthodes d'évaluation.

Le document de consultation qui sert de support à la réflexion présente les diverses méthodes d'évaluation possibles pour les états financiers - le coût historique, la valeur de marché, le coût de remplacement - et l'approche de la « valeur pour l'entité » ou « deprival value model », ainsi que les combinaisons de ces méthodes et approches.

Le Conseil a analysé les différentes méthodes au regard des choix exercés dans les deux premiers documents soumis à consultation, et sous l'angle de leur pertinence compte tenu des caractéristiques du secteur public. Le Conseil ayant clairement préconisé une approche par les flux économiques dans le premier document de consultation de l'IPSAS Board, il indique en cohérence dans ce second document que la méthode du coût historique constitue une méthode préférentielle pour les entités publiques mais souhaite que soit réservée la possibilité de recourir aux autres méthodes en fonction des éléments à évaluer.

La méthode du coût historique conduit à comptabiliser un bien pour sa valeur d'acquisition à sa date d'entrée dans le patrimoine de l'entité. En France, elle est largement utilisée dans les comptes de l'Etat, les établissements publics, les collectivités locales et les organismes de sécurité sociale. Cette méthode présente

l'avantage de la simplicité et répond aux objectifs d'information des utilisateurs des états financiers (identifiés dans l'exposé-sondage de la phase 1). De plus, cette méthode correspond à la façon dont les entités publiques gèrent leur patrimoine dans la durée.

Dans le cas où il n'est pas possible d'appliquer la méthode du coût historique, il est toutefois possible d'avoir recours à des méthodes alternatives comme la valeur de marché pour évaluer un actif. Enfin, dans le cas où les méthodes précédentes s'avèrent inadaptées, le coût de remplacement peut également être utilisé. En revanche, le Conseil considère que la valeur pour l'entité présente une réelle complexité d'appréhension et renvoie de surcroît à des notions de valeur de vente et de valeur d'usage qu'il estime inadaptées aux comptes de l'Etat et des entités publiques.

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ANNEXE 1

COMMENTAIRES SPECIFIQUES

1. *Le cadre conceptuel doit-il avoir pour rôle d'identifier les facteurs pertinents pour la sélection d'une méthode d'évaluation d'un actif ou d'un passif particulier, dans des conditions spécifiques, ou doit-il plutôt sélectionner une méthode ou une combinaison de méthodes ?*

Le Conseil considère qu'il convient, dans le cadre conceptuel, de rester en cohérence avec les choix exercés dans les deux précédents documents de consultation (Conceptual Framework Exposure-Draft et Consultation Paper Elements and Recognition in Financial Statements). **Il préconise d'identifier dans le cadre conceptuel les méthodes d'évaluation à retenir dans les états financiers du secteur public sans lier chacune d'elle à une catégorie particulière d'actifs ou de passifs.**

En revanche, il n'est pas favorable à retenir une seule et unique méthode de mesure.

2. *Dans le cas où selon vous le cadre conceptuel doit spécifier une méthode d'évaluation ou une combinaison de méthodes (ou d'approches, dans le cas du modèle « deprival value »), doit-il s'agir :*

- *d'une méthode d'évaluation unique :*
  - *(a) coût historique*
  - *(b) valeur de marché*
  - *(c) coût de remplacement*
- *d'une combinaison de différentes méthodes/approches :*
  - *(d)« deprival value »*
  - *(e)coût historique et la valeur de marché*
  - *(f) coût de remplacement et la valeur de marché*
  - *(g)coût historique, coût de remplacement et valeur de marché*

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- *d'une autre méthode d'évaluation ou d'une autre combinaison de méthodes/ approches.*

La réponse devrait présenter les raisons pour retenir une méthode particulière ou une combinaison de méthodes/approches et rejeter les autres.

Le Conseil se prononce en faveur d'une combinaison de méthodes : coût historique, valeur de marché et coût de remplacement. Il souhaite par ailleurs introduire une hiérarchisation entre ces méthodes.

La méthode de droit commun est celle du coût historique. Cependant, en fonction des types d'éléments à évaluer, le recours à d'autres méthodes ne doit pas être écarté.

La méthode du coût historique comptabilise un bien pour sa valeur d'acquisition à sa date d'entrée dans le patrimoine de l'entité. Elle est largement utilisée dans les comptes de l'Etat, les établissements publics les collectivités locales et les organismes de sécurité sociale qui gèrent leur patrimoine dans la durée. Elle s'avère adaptée à l'approche comptable par les flux économiques. Cette méthode présente de plus l'avantage de la simplicité et répond aux objectifs d'information des utilisateurs des états financiers (identifiés dans le document de consultation de la phase 1).

Cependant, la spécificité de l'Etat et de certains établissements publics tient à la pérennité de leur action et à la nature de leur patrimoine, qui se traduit par la méconnaissance ou l'absence de signification, du coût d'acquisition. **Dans les cas où il n'est pas possible d'utiliser le coût historique, parce qu'il n'est pas connu ou trop ancien, la valeur de marché peut être utilisée,** d'autant plus si le patrimoine est géré activement. Pour l'évaluation des actifs selon cette méthode, il est nécessaire de pouvoir se référer à des transactions réalisées sur des actifs présentant des caractéristiques similaires. A défaut de l'existence d'un marché liquide permettant d'identifier de telles transactions, les référentiels comptables autorisent le recours à des valeurs estimées.

Le Conseil considère en revanche que cette méthode n'est pas appropriée pour l'évaluation des passifs, en particulier pour les dettes financières de l'Etat.

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Enfin, dans certains cas spécifiques, le coût de remplacement est une méthode qui peut en dernier ressort être retenue bien que, pour partie, les actifs et les passifs de l'Etat soient par nature non remplaçables. A titre d'illustration, dans les comptes de l'Etat, la méthode du coût de remplacement déprécié est utilisée pour l'évaluation des infrastructures routières, dont on ne connaît pas le coût d'acquisition, et pour lesquelles il n'existe pas de valeur de marché reconnue et identifiable.

En matière d'évaluation des actifs et passifs financiers, il convient de compléter les éléments précédents d'un commentaire spécifique. La dette financière de l'Etat français est évaluée conformément au référentiel comptable actuel (Recueil des normes comptables de l'Etat) en coût historique. Des informations complémentaires relatives à l'évaluation en valeur de marché de la dette sont fournies dans les notes annexes. Dans un souci de bonne information, la diffusion d'informations complémentaires dans les notes annexes – par exemple la présentation de la dette en faisant ressortir le taux d'intérêt effectif – devrait être envisagée.

3. *Le document de consultation examine les méthodes d'évaluation suivantes : coût historique, valeur de marché, coût de remplacement. Il présente également le concept de « deprival value », qui ne décrit pas une méthode d'évaluation mais plutôt une approche pour choisir la méthode d'évaluation pertinente dans un contexte donné. La valeur d'usage et le prix net de cession sont présentés dans le contexte de cette approche.*

Selon vous, cette discussion est-elle complète, équilibrée et juste ? Si cela n'est pas le cas, indiquez quels sont selon vous les éléments manquants, ou dans quelle mesure la discussion ne rend pas compte des forces et faiblesses des différentes méthodes (ou approche dans le cas de la « deprival value »).

Le document de consultation présente successivement les différentes méthodes et approches possibles. Il décrit les principaux avantages et limites de ces différentes méthodes. Le Conseil est d'accord avec ces présentations qu'il considère équilibrées.

Toutefois il convient de noter que le concept de « deprival value » n'est pas clair ; de plus, cette approche, peu pertinente pour les passifs, n'est guère utile

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en raisonnement sur les actifs. On peut donc s'interroger sur l'intérêt de cette mention.

4. *Selon vous,*

(a) Le risque crédit propre d'une entité doit-il être intégré dans l'évaluation des passifs lors de leur comptabilisation initiale ?

(b) Lors des évaluations ultérieures, les effets de la variation du risque crédit propre doivent-ils être comptabilisés ?

(a) Pour la comptabilisation d'un passif financier, le Conseil considère que le risque de crédit propre à l'émission fait partie intégrante de l'instrument, et ne doit pas être mesuré de manière indépendante.

(b) Lors des évaluations ultérieures, le Conseil n'est pas favorable à l'évaluation des passifs financiers en valeur de marché, car dans une large proportion les passifs de l'Etat sont représentés par des instruments de dette ayant vocation à être détenus jusqu'à leur échéance.

5. *Selon vous, lorsque des actifs ne sont pas dédiés à une utilisation, et qu'en conséquence, ils peuvent être vendus pour un autre usage, leur évaluation dans les états financiers doit-elle :*

(a) Refléter uniquement le potentiel de service associé à l'utilisation actuelle ? ou

(b) Inclure une revalorisation en relation avec la cession possible du bien pour cet autre usage ?

(a) Le Conseil ne souhaite pas s'orienter vers des principes de comptabilité d'intention, qui conduiraient à réévaluer un bien destiné à la vente, et souhaite en tout état de cause que l'évaluation reflète l'utilisation du moment.

(b) Néanmoins, dans le cas d'un ensemble immobilier destiné à être vendu, et pour lequel le processus de vente est effectivement en cours, s'il existe des éléments qui permettent de justifier la réalisation de la vente à brève échéance et par conséquent son évaluation, le Conseil estime qu' une information devrait être fournie dans l'annexe aux comptes.

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ANNEXE 2

CONSEIL DE NORMALISATION DES COMPTES PUBLICS (CNOCP)

1. Création du Conseil de normalisation des comptes publics et champ de compétence

Le Conseil de normalisation des comptes publics a été créé par la loi de finances rectificative du 30 décembre 2008, et remplace le Comité des normes de comptabilité publique.

Ce nouveau Conseil est en charge de la normalisation comptable de toutes les entités exerçant une activité non marchande et financées majoritairement par des ressources publiques et notamment des prélèvements obligatoires.

Entrent dans son périmètre l'Etat et les organismes dépendant de l'Etat, les collectivités territoriales et les établissements publics locaux, et la Sécurité sociale et les organismes qui lui sont assimilés.

Cette extension de périmètre par rapport à l'ancien Comité des normes de comptabilité publique qui était en charge de la normalisation des comptes de l'Etat français se justifie par la nécessité de définir une politique de normalisation comptable cohérente au niveau de l'ensemble des administrations publiques.

2. Mode de fonctionnement du Conseil de normalisation des comptes publics

Le Conseil est un organisme consultatif placé auprès du Ministre chargé des comptes publics qui doit donner un avis préalable sur tous les textes réglementaires comportant des dispositions comptables applicables à des entités entrant dans son champ de compétence. Il peut également proposer des dispositions nouvelles et doit participer aux réflexions sur la normalisation comptable au niveau national et international. Ses avis sont publics.

Le Conseil est dirigé par un Président nommé par le Ministre chargé des comptes publics et ses attributions sont exercées par un Collège composé de dix huit membres dont neuf membres de droit et neuf personnalités qualifiées. Le Président et le collège sont assistés par trois commissions permanentes et un comité consultatif d'orientation. Les trois commissions permanentes sont les suivantes : « Etat et organismes dépendant de l'Etat », « Collectivités territoriales et établissements publics locaux », « Sécurité sociale et organismes assimilés ».

Le Conseil dispose d'une équipe technique permanente placée sous l'autorité du Président et dirigée par un secrétaire général.

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June 8, 2011

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Re: PSAB Staff Comments on Exposure Draft "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements"

Thank you for the opportunity to offer our perspectives on the proposals in this Consultation Paper (CP). We would like to express our support for this important effort and we hope our comments will contribute to advancing it.

Ultimately all aspects of a new Framework should display an integration of thought and purpose. For this objective to be met, perspectives on measurement need to demonstrate a strong linkage to the other Concepts papers. We do not believe this has been entirely overlooked, as the Consultation Paper expresses perspectives on the needs of users and application of concepts of capital, but from our perspective there remains an evident disconnect on the second point. Publication of the Consultation Paper and deliberation of the comments received will no doubt advance this process.

Our view is that the needs of the users and the application of the qualitative characteristics described in CF ED 1[1] leads us to conclude that generally speaking, financial information based on current facts and circumstances is preferable to that which is historic. We believe this view should be expressed. Such a view can be consistent with a mixed measurement model as application of the qualitative characteristics and their constraints provide ample ground to measure items based on historical cost when those measures provide useful information (an example being short-term amounts receivable expressed at cost less an allowance for doubtful accounts).

An implication of adopting the perspective that current information is more useful is that the information provided supports broadly-based measures of accountability. In Canada, PSAB is undertaking to review concepts underlying financial performance. This review will in part focus on the aspects of financial performance that are important to

[1] being Conceptual Framework Exposure Draft 1: "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity.

users and whether these conclusions have implications for the underlying Concepts that guide general purpose financial reporting.

Within our constituency, recent standard setting proposals have prompted an active debate about the role of financial statements play in communicating measures of financial performance. Some hold the view that the Concepts should promote accountability primarily in relation to the budget plan adopted by the legislature. Others seek ensure general purpose financial statements support broader notions of accountability.

General purpose financial statements provide information to a broad range of users. It is our view that users seek information that is useful to the judgments they seek to make. Consequently, they will assess performance in relation to their own criteria. Section 2 within CF ED 1 acknowledges these varying information needs. It is relevant to note the acknowledgement given in paragraph 1.2 to the bases used for statistical purposes, a basis grounded on measuring performance in relation to economic flows, based on current entry values.

Prior to the finalization of the measurement paper, aspects of the elements and their recognition paper will need to be integrated. In this regard, it is our view that separate elements or sub-components of elements should not be introduced in an effort to overcome repercussions arising from measurement. This view is asserted given an expectation that the introduction of elements to support deferred outflows and deferred inflows would add complexity or in some way diminish the transparency of the information added by measuring items based on information that reflects current economic events and conditions.

On the other hand, to be consistent with our view that users refer to general purpose financial reports to assess performance in relation to their own criteria, we support presentation approaches that may be useful in demonstrating accountability in a manner that supports a common need and promotes comparability between entities in the public sector. When trade-offs between competing needs must be made, it is hoped that they would not limit the information that is available unless it is determined that the benefit a user might gain from current information cannot be justified in relation to its cost, affect on timeliness or it is simply not material.

The paper gives prominent attention to the deprival value model, advocating it as “a rationale by which a specific basis may be selected as the most relevant in specific circumstances.” Deprival is consistent with the view expressed here that current information is favoured as being more useful.

A consequence of adopting deprival value is that it can require that the measures be entity specific. Paragraph 1.7 highlights this concern when it states “the use of values that use an entity-specific perspective is that they reflect the intentions or expectations of the entity or its management and so are subjective and lack verifiability and

comparability." Most susceptible are capital assets as deprival value requires that the replacement cost, value-in-use and net selling price be measured for each asset. Many capital assets are unique or specialized in some way. In the public sector there is the added complexity of assessing this information in relation to an asset's service potential. In our view, measures of replacement cost and value-in-use based on an asset's service potential may vary from measures based entirely on future cash flows.

While maintaining three values for each asset would add to the work effort, this is not the principal reason we are not yet ready to embrace deprival value. In Section 4 of CP 2[2], two approaches to reporting financial performance are presented. The revenue and expense led approach attributes the costs of services to the period in which the services are provided, and attributes tax and other revenue to the period in which they were intended to finance the related costs. The alternative model presented is the asset and liability model which subordinates the reporting of revenues and expenses in terms of changes in assets and liabilities.

In preparing and presenting these papers independently, what seems to have fallen between the cracks is the broader question of identifying what is the most meaningful representation of financial position and the changes in that financial position for a public sector entity. In addition to settling on one of the two approaches described in CP 2, consideration needs to be given to the concept of capital that should apply. This is at the heart of resolving the question about what are public sector entities measuring when they are measuring performance.

Public sector entities are consumers of capital by way of borrowing or taxation. Consequently it is of fundamental interest to determine whether surplus or deficit is measured in relation to operating capacity or in purely monetary terms.

We are not yet ready to answer to this question but believe it needs to be debated. If a clearly enunciated view could be expressed, it might be easier to resolve how this view should be enabled. As well, it might contribute to greater stakeholder engagement.

There is the perspective of those who use the information generated by the financial reporting process to maintain statistics. These users seek a neutral presentation that reflects economic flows. At the other end of the spectrum are those who view general purpose financial reports as being limited to demonstrating accountability in relation to the program spending and funding requirements set out by a government's policy makers. If it is determined that general purpose financial statements should report on the stewardship of the tangible assets by measuring whether the capacity to deliver service has been maintained, deprival value may well be a valuable enabler. Does the IPSASB have a view on

[2] being the Consultation Paper: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

whether a general purpose financial report is some or all of these things?

We appreciate the opportunity to comment on this Consultation Paper. We are very supportive of IPSASB's conceptual framework initiative and wish you success in integrating this piece of the framework with the other phases and the key characteristics document.

Responses to the Specific Matters for Comment in the ED are set out in Appendix A to this letter. Additional comments about the ED by paragraph are provided in Appendix B.

Please note that these comments are the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB).

Sincerely,



Robert Correll, CA
Principal
Public Sector Accounting

Appendix A
Responses to Specific Matters for Comment

1. Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

The role of the Framework is to establish the objectives of general purpose financial reporting (GPFR), describe the elements that constitute the building blocks to be reported on and how those elements are presented. In our view, accrual accounting information is useful when items are measured in relation to current facts and circumstances. For practical reasons, this will usually require that a combination of measurement bases be used.

Financial assets and financial liabilities

When a reliable current measure of an item's value is available, such as when identical items are traded in deep and liquid markets, there is a strong argument to use market prices. When this is not the case, the reporting process needs to consider the anticipated cash flows associated with the rights or obligations stemming from control of the item. The item should be measured based on this information. When an item is not subject to significant variability, a practical approach may be to measure the item based on its historic entry value adjusted for current information (an example being short-term amounts receivable expressed at cost less an allowance for doubtful accounts).

Non-financial assets and non-financial liabilities

As it is an objective that general purpose financial reports measure stewardship over non-financial assets and non-financial liabilities, IPSASB needs to annunciate its objectives in this regard. Is it an objective to report on service potential and changes in service potential or to simply measure surplus or deficit in purely monetary terms. The deprival value model may prove to be useful in establishing the most appropriate current measure of the service potential associated with an asset or service obligation associated with a liability if that is defined to be a reporting objective for general purpose financial statements.

2. If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single measurement basis
(a) Historical cost.
(b) Market value.
(c) Replacement cost.

Combination of Bases/Approach
(d) Deprival value.
(e) Historical cost and market value.
(f) Replacement cost and market value.
(g) Historical cost, replacement cost, and market value.

Others
(h) Another measurement basis or combination of bases/approach.

In our view, the Framework should focus establishing the objectives of financial reporting, the difference between financial and non-financial items, and measurement methods that support those objectives. The strengths and weaknesses of each method should be explained.

We support the need for a combination of bases as described in our answer to question 1.

3. The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

In our view, the paper should emphasize the need for bases of measurement that incorporate current information. In the case of financial assets and financial liabilities, the Concepts should explain why measures based on market information are superior. It should also outline circumstances when measures based on historical cost updated based on current information are a practical and useful substitute.

The paper should explain why non-financial assets and non-financial liabilities are fundamentally different from financial assets and financial liabilities. The bases of measurement that apply to non-financial items should flow once IPSASB can clearly annunciate the objectives it associates reporting on the stewardship of these items.

4. In your view, should:

(a) The effect of an entity's own credit be reflected in the measurement of liabilities at initial recognition; and

(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

In our view, financial performance should be measured in relation to each entity's own cost of financing. The cost of financing can be expressed in historical terms when there is evidence that it is the entity is managing the financial liability in relation to its contractual cash flow characteristics (i.e., that it is not a financial instrument that it is regularly trading).

Consequently, our answers to these questions are:

(a) Yes.

(b) No, unless the public sector entity has determined that it is trading in the financial liability.

5. In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

(a) Only the service potential relating to the existing use; or

(b) Include the incremental value relating to its possible sale for an alternative use?

First, we must assume that the asset in question is a non-financial asset as part (a) describes the assets in relation to service potential. On the other hand, if it is a financial asset, it should be measured in relation to current information as that is indicative of the resource available to the public sector entity. Financial assets can normally be measured in relation to the rights to future cash flows that can be expected to accrue to the party that controls them.

In relation to non-financial assets, in our view the answer will flow once IPSASB better annunciates on what basis it seeks to measure financial position and annual surplus or deficit. We would also expect that a principle similar to that which we applied in Question 4 should differentiate non-financial assets. Specifically, until there is evidence that the public sector entity

has taken active steps to discontinue the service associated with the asset (either by discontinuing the service or by continuing the service with a replacement asset) we would expect that the basis of measurement would be based on its remaining service potential.

Specific to your questions we would answer:

(a) We do not accept the view that "the possibility" of the asset's disposal as being sufficient to change its basis of measurement.

(b) We do not accept that an incremental value should be attributed to a possible sale as this presumably would represent a change in the basis of measurement.

Appendix B
Editorial Comments

4.8 In describing on what constitutes 'relevant service potential' we believe it would be useful to recognize, perhaps through an example, that the capacity of infrastructure, particularly piped services, is often planned and constructed in contemplation of growth. We would not expect that such an approach should result in a near term write-down based on the example given in this paragraph.

ØKONOMISTYRELSEN

Memo

30. maj 2011
ØKO/SRH

Comments to the Consultation Paper concerning measurement of Assets and Liabilities in Financial Statements

Below, the comments from the Danish Agency for governmental management are divided into a number of general comments and a number of specific comments regarding the measurement of assets and liabilities.

1. General comments

Generally, the Danish Agency for governmental management agrees to the idea for making guidelines to the measurement of assets and liabilities.

In relation to the measurement of assets and liabilities however, the Danish Agency for governmental management finds it important to underline, that you should only include assets and liabilities on a measurement basis in financial statements to the extent that it gives a better basis for economic management. At the same time you must consider whether costs by making a precise and complete measurement commensurate with the benefits associated with such practices.

Also, it is the opinion of the Danish Agency for governmental management that measurement as far as it is possible should be based on objective standards to secure that all operate with the same guidelines. The use of objective standards is also important for appropriation management. Similarly a sensible comparison of each company's accounts assumes an application of objective standards.

2. Specific comments concerning the measurement of assets and liabilities

The Consultation Paper deals with four different measurement basis for financial reporting:

1. Historical Cost
2. Market Values
3. Replacement Cost
4. The Deprival Model

Historical Cost

Under the historical cost basis assets are reported at the cost incurred on their acquisition and liabilities are stated on the historical cost at the amount received in the transaction under which the obligation is assumed.

Advantages and limitations in using historical cost are discussed in the consultation paper and it is stated that historical cost is a widely used basis of

financial reporting and therefore has the advantage of familiarity just as historical cost information generally has a high degree of verifiability.

In Denmark historical cost is used as the general measurement basis for assets and liabilities in our financial statements.

When we have chosen historical cost as a measurement basis it is because it is easy to use and because it has a high degree of verifiability. A further important factor for choosing historical cost is that historical cost is particular suitable for comparing cost incurred against budgets.

Market Values
In a market value system of accounting, assets and liabilities are stated at market prices prevailing on the reporting data. It is therefore a current measurement basis, and reflects a market rather than an entity-specific perspective.

Advantages and disadvantages of using market values are discussed in the consultation paper and it is concluded that in an ideal context market value possess all of the following qualitative characteristics: relevance, faithful representation, understandability, timeliness, comparability and verifiability.

In Denmark we only use market values as a measurement basis in a few areas concerning real estate.

One of the reasons why market values are used in the real estate area it that it can be based on the public real estate valuation.

Replacement Cost
The replacement cost of an asset may be defined as the most economic cost required to replace the service potential of an asset.

Advantages and disadvantages of using replacement cost are discussed in the consultation paper and it is concluded that the major advantage of replacement cost compared to other measurement bases is its relevance for both accountability and decision-making purposes. It is also concluded that in some cases calculation of replacement cost will be complex just as the use of replacement cost will require subjective judgment. This will prejudice the timeliness, comparability and verifiability of information prepared on a replacement cost basis and will also make it more costly than other alternatives.

In Denmark we do not use replacement cost as a measurement basis in our financial statements.

The Deprival Model

The deprival value model does not prescribe a single measurement basis but provides a rationale by which a specific basis may be selected as the most relevant in specific circumstances.

The deprival value model reflects the loss that the entity would sustain if deprived of the asset. This cannot be higher than cost of obtaining equivalent service potential (replacement cost) or lower than the amount that the entity can recover from the asset (recoverable amount). The choice of measurement base reflects the highest economic value that the entity can derive from the asset: replacement cost is selected where the asset is worth replacing and net selling price is selected when it is not and the highest value will be obtained from immediate sale. Value in use is selected when an asset is not worth replacing but the value of its service potential is greater than that which would be derived from sale.

The Danish Agency for governmental management finds that the description of the deprival model is very interesting, complete, balanced and fair.

On the other hand we doubt whether the model will find use in public financial statement due to the fact that it is very complex and requires a lot of subjective judgment.

Furthermore the model will be very costly to apply.

On the basis of the deprival value model for assets introduced in the consultation paper the Danish Agency for Governmental Management considers developing and applying a derived model to be used when measuring transferred assets between central government institutions and measuring infrastructural assets and maintenance backlog.

Regarding the latter the value of the maintenance backlog could be viewed as the residual between the replacement cost and the value in use, which could be recognized in the balance sheet as a liability expressing future obligations to carry out maintenance on these specific assets.

CIPFA The Chartered Institute of Public Finance & Accountancy

IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Exposure Draft
- Role, Authority and Scope;
- Objectives and Users;
- Qualitative Characteristics; and
- Reporting Entity

Consultation Paper
- Elements and Recognition in Financial Statements

Consultation Paper
- Measurement of Assets and Liabilities in Financial Statements

responses to exposure draft and consultation papers

15 June 2011

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/1106159 SC0161-163

Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
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Ontario M5V 3H2
CANADA
Submitted electronically
15 June 2010

Dear Stephenie Fox

IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Exposure Draft: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity

Consultation Paper: Elements and Recognition in Financial Statements

Consultation Paper: Measurement of Assets and Liabilities in Financial Statements

CIPFA is pleased to present its responses to these three consultations, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

CIPFA strongly supports IPSASB's programme which helpfully develops public sector specific IPSASs on matters which are unique to the sector, and IFRS converged IPSASs on matters which are relevant to both private and public sectors. The conceptual work will inform the development of standards in future and we support the objective of achieving an optimum balance between maintaining comparability between sectors and addressing sector specific issues.

CIPFA therefore welcomes the continuing development of IPSASB's important work in developing a conceptual framework for public sector financial reporting, which will be helpful both where IPSASs are developed for circumstances covered by IFRS, and when dealing with sector specific matters. The importance of this work is particularly clear given developments in IFRS which may make it more difficult to apply those standards or the IASB conceptual framework directly to the circumstances of public sector entities. Because this work is so important, it is vital that the development of the framework is rigorous and is followed up by standards developed in an equally rigorous manner, supported through transparent consultation.

In the Board's previous consultation UK stakeholders expressed reservations about the widening of scope beyond matters which have traditionally been included in public sector financial reporting. CIPFA welcomes the current Exposure Draft's explanation of the way in which the Board approach the evolution of wider scope reporting. In particular we welcome the acknowledgement that IPSASB may address wider reporting needs through non-authoritative guidance. Even so, we would note that the Board has limited resources, and is committed to a substantial workload in completing development of the Conceptual Framework and more mainstream development such as an IPSAS on Entity Combinations and 'maintenance' of converged IPSAS, such as Financial Instruments, where the relevant IFRS are undergoing substantial change. Given this we would urge caution in pursuing development of wider reporting beyond those topics, such as Long Term Fiscal

Sustainability, which the Board has included in its work plan after specific consultation on the Board's agenda.

Specific Matters for Comment

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment are provided for each of the three consultations, attached at Annexes A to C.

I hope this is a helpful contribution to the finalisation of IPSASB guidance. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org.uk, t:+44(0)20 7543 5794).

Yours sincerely
Paul Mason
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CIPFA
3 Robert Street, London WC2N 6RL

Responses/110615 SC0163
ANNEX C

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment

IPSASB Consultation Paper

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

Specific Matter for Comment 1 Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?
CIPFA considers that the framework should mainly identify the factors that are relevant in selecting measurement bases for assets and liabilities rather than specifying one or more measurement bases to be used. It would be helpful if in doing this, the framework provided indicative guidance on the circumstances under which IPSAS standards might allow or require assets or liabilities to be measured on a historical or current value basis, however defined.
Specific Matter for Comment 2 If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be? Single Measurement Bases (a) Historical cost. (b) Market value. (c) Replacement cost. Combinations of Bases/Approach (d) Deprival value. (e) Historical cost and market value. (f) Replacement cost and market value. (g) Historical cost, replacement cost, and market value. Others (h) Another measurement basis or combination of bases/approach. Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.
Per our answer to Specific Matter for Comment 1 above, we do not consider that the framework should specify measurement bases.

Specific Matter for Comment 3

The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

We agree that the discussion in the Consultation Paper is complete, balanced and fair.

Specific Matter for Comment 4

In your view, should:

(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and

(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

In our answer to Specific Matter for Comment 1, we suggest that the framework should mainly identify the factors that are relevant in selecting measurement bases for assets and liabilities rather than specifying one or more measurement bases to be used. Given this, it is difficult to provide an answer to this question which may depend on the particular measurement approach applied to specific assets.

Having said this, we agree that some consideration should be given to own credit risk when determining the measurement of liabilities at initial recognition. As noted in paragraph A12 of the CP when a liability is issued for a consideration, the entity's credit risk affects the amount that is received in exchange for its issue. There are however practical difficulties associated with calculating own credit risk for some other categories of liabilities. We suggest that IPSASB would need to undertake research to establish to what extent a workable approach to own-credit risks can be developed before applying this approach widely in IPSAS standards.

We also agree that in principle there is an argument for reflecting changes in own credit risk when liabilities are subsequently re-measured. However we are not sure that a workable approach to such re-measurement can be developed. If own credit risk is included as part of re-measurement we suggest its application is limited to transactions where the link is identifiable, measurable and observable for example the issuance of debt or debt servicing obligations.

Specific Matter for Comment 5

In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

(a) Only the service potential relating to the existing use; or

(b) Include the incremental value relating to its possible sale for an alternative use?

In our answer to Specific Matter for Comment 1, we suggest that the framework should mainly identify the factors that are relevant in selecting measurement bases for assets and liabilities rather than specifying one or more measurement bases to be used. Given this, it is difficult to provide an answer to this question which may depend on the particular measurement approach applied to specific assets.

However, on balance we expect that,

- For assets utilised in a continuing service provision activity under the going concern basis, we would expect the measurement to primarily reflect the service potential relating to the existing use.
- For assets held to obtain an economic return the measurement would, in the first instance reflect the assets value in existing use

Having said this, in both cases information on net selling price may provide useful information to inform the reporting entity's decisions on whether to continue using the specific asset for the current purpose. Also where an activity is discontinued but the asset is retained for alternate use rather than disposed of then valuation based on alternate use may be appropriate. This might affect, for example, the value attributed to the service potential under certain circumstances, or might justify additional information provision in disclosures attached to the primary financial statements.

CF·CP 3

020

16 June 2011

Stephenie Fox
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By email: stepheniefox@ifac.org

Dear Stephenie

IPSASB Consultation Paper Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

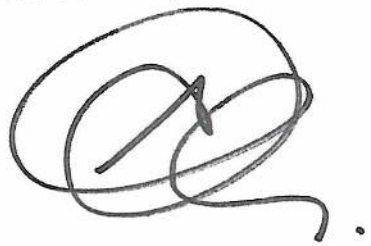
CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the IPSASB Conceptual Framework (CF) Consultation Paper (CP) Measurement.

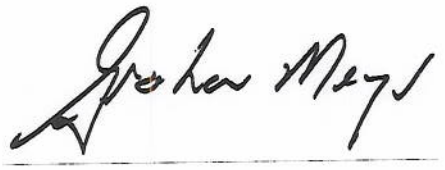
The Joint Accounting Bodies preferred approach is for an international reporting framework comprised of a single set of concepts designed for application to all sectors. However, we acknowledge that this is not the way that standard setting internationally is structured today. Nevertheless, we encourage the IPSASB to continue to initiate dialogue with the Trustees of the IFRS Foundation about the imperative for action to expand the objective of the IASB to develop a single set of accounting standards appropriate for all sectors. The Joint Accounting Bodies will continue to make such representations nationally and internationally.

The Joint Accounting Bodies consider the completed conceptual frameworks of the IPSASB and the IASB/Financial Accounting Standards Board (FASB) will represent international best practice for entities of the public sector and the private for-profit sector respectively. However, the journey to completion is not proceeding contemporaneously. The IASB/FASB has decided to not proceed yet with a discussion paper on measurement. We believe it appropriate that the IPSASB has exposed its thinking on this topic. However, we are concerned that differences in the decisions of the IPSASB and the IASB/FASB (when they eventually get to this topic) may prove problematic for transaction neutral jurisdictions like Australia should jurisdictions choose to maintain the approach of one set of standards and at the same time ensure that international investors understand that the financial reports of for-profit entities accord with the International Financial Reporting Standards (IFRS). To militate against the risk of this outcome, we encourage the IPSASB to maintain dialogue with the IASB/FASB on this topic and other conceptual framework topics.

The response of the Joint Accounting Bodies to the questions posed is appended. If you require further information on any of our views, please contact Mark Shying, CPA Australia by email mark.shying@cpaaustralia.com.au, Kerry Hicks, the Institute of Chartered Accountants by email kerry.hicks@charteredacccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely







Alex Malley
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants in Australia

Andrew Conway
Chief Executive Officer
Institute of Public Accountants

Appendix

Specific Matters for Comments

Question 1 – Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

The Joint Accounting Bodies believe that the role of the Framework should be two fold – aspirational and practical.

First, the Framework should be aspirational. Therefore, we consider that the Framework should include a section that articulates the 'conceptually ideal' capital maintenance concept and measurement base for use in the public sector.[1]

Second, the Framework should be practical. The CF CP Measurement paragraph 1.5 states "It is not expected that the IPSASB Framework will identify a single measurement basis that is appropriate in all circumstances.". Since there is only one capital of each entity, there would be little sense in using different maintenance concepts for different assets and liabilities. Accordingly, for practical reasons, we support the Framework departing from a clear capital maintenance model. Instead, the Framework should identify factors to be referred to by the IPSASB in choosing the measurement basis to be required for particular assets and liabilities in specific circumstances, thereby ensuring the production of information that presents with relevance and faithful representation and other qualitative characteristics as appropriate.

Question 2 – If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single Measurement Bases
(a) Historical cost.
(b) Market value.
(c) Replacement cost.
Combinations of Bases/Approach
(d) Deprival value.
(e) Historical cost and market value.
(f) Replacement cost and market value.
(g) Historical cost, replacement cost, and market value.
Others
(h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

It is premature to specify a single approach to measurement irrespective of whether it is a single measurement basis or a combination of bases or approach, however; would encourage the IPSASB to continue to liaise with the IASB/FASB to work towards a consistent approach to measurement. The CF CP Measurement Table 1 provides an overview of the above measurement bases or approach. We understand that classifications are subjective. For example, Table 1 describes historical cost as an entity-specific value, whereas some commentators describe it as a past market value. The CF CP Measurement Chapter 3 discusses 'market values' as a measurement basis – sometimes without specifying whether it represents a market entry or an exit value (see paragraph 3.3); and on other occasions identifying the difference that would arise from using a market entry value in place of an exit value (see paragraph 3.12). However, we believe it is important that the Framework is as objective as possible. Therefore, we consider it important that the Framework contain a more comprehensive discussion of the differences between a market entry value and an exit value for it considered to be a rigorous discourse on measurement bases. It should also include fair value as an identified

[1] The CF CP Measurement notes that a specific concept of capital maintenance will guide the selection of measurement bases.

measurement base. We do not find the reasons for its exclusions at paragraph 1.14 very convincing.

Question 3 – The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept that does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

See our comments to Question 2 above.

Question 4 – In your view, should:

a. **The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and**
b. **The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?**

In our response to Question 1 above the Joint Accounting Bodies, stated one role for the Framework should be aspirational and it should articulate the 'conceptually ideal' capital maintenance concept and measurement base for use in the public sector. Whether or not the effect of an entity's own credit risk should be reflected in the measurement of liabilities on and following initial recognition will depend on the chosen ideal capital maintenance concept and measurement base.

Our response to Question 1 above also called for a Framework that identified factors to be referred to by the IPSASB in choosing the measurement basis to be required for particular liabilities in specific circumstances. The current set of IPSASs makes use of different measurement bases to measure liabilities. This may continue to be appropriate if the resulting information presents with relevance and faithful representation. It is our understanding of fair value that it includes credit risk in the fair value measurement of a financial liability. In contrast, we understand that this is not the case when IPSAS 29 *Financial Instruments: Recognition and Measurement* requires a financial liability to be measured at amortised cost. IPSAS 13 *Leases* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* do not include own credit risk in the measurement of liabilities. Until the IPSASB makes decisions about the range of available measurement bases there can be no resolution of the place of own credit risk in the measurement of liabilities however; would encourage the IPSASB to continue to liaise with the IASB/FASB to work towards a consistent approach to measurement of liabilities and the treatment of credit risk and its reporting or otherwise within Other Comprehensive Income.

Question 5 – In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

a. **Only the service potential relating to the existing use; or**
b. **Include the incremental value relating to its possible sale for an alternative use?**

The Joint Accounting Bodies believe it is too early to answer this question. We believe decisions on the definition of terms, the unit of account to be measured, capital maintenance concepts and measurement bases must take precedence.

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CANADA

25 June 2011

Dear Stephenie

Consultation Paper: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

1. We welcome the opportunity to comment on the above Consultation Paper.

2. We support the objective set out in paragraph 1.5 of the Paper of developing a Framework that identifies factors that should be considered in choosing a measurement basis, rather than seeking to prescribe a measurement basis (or bases) to be used in all circumstances. In our view, this approach is likely to be the most helpful developing standards that can be applied to give the most relevant information in the particular circumstances, having regard to the reliability of the selected measurement basis.

3. We accept that current values are sometimes more relevant than historical values. In particular, current values are necessary to provide relevant information for an assessment of accountability, as they provide information on the current opportunities open to an entity to redeploy assets that may have relatively low historical cost. However, in our view the Framework should recognise that in some cases historical values are likely to offer the best balance of relevance and reliability. A particular advantage of historical cost is that it provides a direct link to the actual transactions undertaken by the entity, which is sometimes obscured when current values are used.

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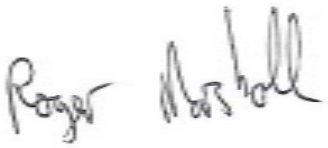
4. We particularly welcome the discussion of general features of measurement bases set out in paragraph 1.7. In particular, we consider entity-specific measures are likely to be more relevant than market values, where market values are not readily available and are estimated on hypothetical assumptions. We also note that such estimated market values may introduce unwarranted and false volatility into the financial statements.
5. We think the paper provides a fair and reasonable summary of the measurement bases that it addresses. However, the Paper would have benefitted from the inclusion of a discussion of the concept of 'fair value' as set out in IFRS 13 *Fair Value Measurement*, which would explain its relationship to other measurement bases, in particular market value.
6. We also encourage the IASB and IPSASB to work together on aligning their respective conceptual frameworks, unless there is good reason to diverge. As the IASB has not yet tackled the issue of measurement, we would encourage the IPSASB to share their experience and thinking with the IASB.
7. Our responses to the Specific Matters for Comment are set out in the attached Appendix. We should be pleased to enlarge on these comments if that would be helpful, in which case please contact Joanna Spencer j.spencer@frc-asb.org.uk or me.

Yours sincerely



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Appendix

ASB Responses to Specific Matters for Comment

Specific Matter for Comment 1

Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

ASB response

We agree that the role of the Framework should be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances.

In our view, it would be a serious mistake for the Framework to specify a single measurement basis. Although such an approach would be conceptually tidy, it would result in a Framework that would not provide useful guidance in devising practical approaches to accounting standards. The result may be standards that contain unsatisfactory compromises towards an unattainable ideal.

In practice, different bases are most relevant in different circumstances. For example, an obsolete asset that offers no utility to its present owner should be measured at selling price, but the general use of selling prices would not result in useful financial statements. Given the advantages of historical cost, particularly its relative reliability, it is inevitable that in many cases it may be the most —indeed perhaps the only—practicable measure. This should be acknowledged in the Framework.

To be useful, the Framework should discuss a number of measurement bases, identify their advantages and drawbacks and suggest the circumstances in which they may be expected to produce useful information. To summarise, we support the aims of the Framework as regards measurement as set out in paragraph 1.5 of the Consultation Paper.

The Framework might also usefully acknowledge that in some cases more than one measurement basis may provide relevant information, and thus the usefulness of financial statements would be enhanced by supplementary disclosure of alternative measurement bases.

Specific Matter for Comment 2

If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single Measurement Bases

(a) Historical cost.

(b) Market value.

(c) Replacement cost.

Combinations of Bases/Approach

(d) Deprival value.

(e) Historical cost and market value.

(f) Replacement cost and market value.

(g) Historical cost, replacement cost, and market value.

Others

(h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

ASB response

For the reasons stated in our response to SMC 1 we do not agree that the Framework should provide a single measurement basis.

However, notwithstanding the above comment, in our view, the deprival value model has considerable merit in identifying values that are relevant in the economic circumstances of the entity. Particular strengths of the deprival value model are that it implies the use of current, rather than historic, values and entity-specific rather than market values where the latter are not readily available.

That said, we agree that market values may be used for assets (and liabilities) where market evidence is sufficiently strong. The use of market values is consistent with, and not a departure from, deprival value reasoning as deprival value offers a rationale for selecting between different market values.

Specific Matter for Comment 3

The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

ASB response

We would encourage IPSASB to develop further its exploration of the deprival value model in the development of its Framework.

Specific aspects of the deprival/relief value model that may need to be considered include:

(i) The relationship between replacement cost and value in use. It seems odd to reason that where replacement cost is irrecoverable, an asset may be stated at value in use, but that value in use may be found by the use of replacement cost.

(ii) Clarification of the concept of net selling price. This might be understood as either (a) the net amount that the entity expects to realise from sale in the ordinary course of operations, after taking account of costs of completion, sale and distribution (consistent with the definition of 'net realizable value' in IPSAS 12; or (b) as the amount that could be obtained if the asset were sold immediately, without further processing at the best price immediately obtainable.

The application of deprival value reasoning to liabilities under the label of 'relief value' is novel. One of its attractions is that it provides a rationale for recording 'deferred revenue' at the amount received until it has been 'earned' through performance. However, because of

its novelty we believe that the relief value model requires further consideration before it is formally adopted. In particular, further consideration needs to be given as to how the relief model would deal with changing prices.

Specific Matter for Comment 4

In your view, should:

(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and

(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

ASB response

In our view, this issue is better addressed in the context of accounting standards than in the Framework.

We are inclined to the view that where a liability is assumed in a market transaction, as for example when an entity takes out a loan, the transaction should typically be measured at the transaction price, which will reflect an entity's own credit risk. The carrying amount will continue to reflect the effect of the entity's own credit risk at initial recognition where subsequent measurement is at amortised cost.

However, the effect of an entity's own credit risk should not be reflected in the measurement of a liability at a current value in an entity's financial statements, because to do so would be highly subjective and the relevance, particularly of changes in an entity's own credit risk is doubtful.

Specific Matter for Comment 5

In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

(a) Only the service potential relating to the existing use; or

(b) Include the incremental value relating to its possible sale for an alternative use?

ASB response

In our view, this issue is better addressed in the context of accounting standards than in the Framework.

As the Consultation Paper says, it is necessary to balance carefully the risks that:

(a) the real value of the assets are concealed by providing only existing use valuation where it is clear that greater value could be obtained by sale for an alternative use. This would impair the extent to which the financial statements meet the objective of providing information that is useful for an assessment of accountability; and

(b) asset values are inflated by valuing assets having regard to alternative uses, where a sale for such an alternative use is only a remote possibility.

It seems probable that an alternative use value would be more relevant in some cases (for example where disposal is imminent and the asset is being actively marketed) and might be preferred for use in the statement of financial position, with existing use valuation disclosed by way of note. In other circumstances, the use of the values might be reversed.

22 June 2011

Ms Stephanie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox,

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

Phase 3: Consultation Paper

Attached is the Australasian Council of Auditors-General (ACAG) response to the consultation paper referred to above. We are grateful for the extension of the deadline for comments by one week.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

Phase 3: Consultation Paper

ACAG would like to draw the IPSASB's attention to the proposed conceptual model included in our response to the IPSASB's consultation paper '*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*'. This model included proposed measurement bases for each element and an explanation for those choices.

In addition to submitting the model outlined in Section I of the Phase 2 Consultation Paper, ACAG also provides the following responses to the specific matters for comment.

Specific Matter for Comment 1

Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

ACAG considers including measurement base(s) within the Conceptual Framework would increase the Framework's ability to meet these needs.

Paragraph 1.2 of the IPSASB exposure draft '*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 1*' notes that the conceptual framework:

> "...can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles and other concepts identified in this Conceptual Framework..."

Therefore, preparers may use the framework to determine the appropriate accounting treatment where other IPSASs are silent on a specific transaction. In applying the Framework these preparers would need to answer:

- does the transaction meet an element definition?; if yes
- does the transaction meet the recognition criteria?; and if yes
- at what amount should the transaction be measured?

Specific Matter for Comment 2

If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single Measurement Bases

(a) Historical cost.
(b) Market value.
(c) Replacement cost.

Combinations of Bases/Approach

(d) Deprival value.
(e) Historical cost and market value.

(f) Replacement cost and market value.
(g) Historical cost, replacement cost, and market value.

Others

(h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

ACAG believes the deprival value model most closely reflects the above measurement bases. However, ACAG would also like to bring the IPSASB's attention to the practical issue of heritage assets under a deprival model. As acknowledged in the ACAG model discussed in the previous consultation paper, Governments often hold assets for a number of purposes. These include:

- cash and cash equivalents to meet their financial obligations and/or exchange for goods and services. In these cases market value is likely to be the most appropriate measurement base.
- assets held for sale which the Government plans to convert into cash or cash equivalents. Market value is likely to provide the most relevant information about such assets; and
- assets to meet ongoing service delivery needs. If these assets were destroyed /impaired the Government would need to replace their service potential to continue maintaining service delivery levels. Therefore, measurement at depreciated replacement cost is likely to be the most appropriate measurement base.

In addition, public sector entities have legal or constructive obligations where no realistic alternative but to settle exists. In these circumstances the entity would chose to meet these obligations at their least cost alternative.

Consider a public sector entity that owns a one-of-a-kind painting. The painting has no reliable market value due to its rarity (therefore no net selling price). The painting in itself is not cash generating but assists the entity in meeting its service delivery needs (therefore no measurable value in use). The entity would replace such an asset if possible but it cannot be reproduced and a similar alternative does not exist (no replacement cost). In these cases, it would be difficult to assign an appropriate value to the asset under the deprival value model.

Specific Matter for Comment 3

The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

ACAG considers the discussion included within the conceptual framework to be balanced and complete.

Specific Matter for Comment 4

In your view, should:

(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and

(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

ACAG suggests the IPSASB reconsider this matter after a measurement base(s) has been determined as these are likely to affect the applicability of an entity's own credit risk in liability measurement.

Specific Matter for Comment 5

In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

(a) Only the service potential relating to the existing use; or

(b) Include the incremental value relating to its possible sale for an alternative use?

ACAG considers that while an asset is held for service delivery purposes, the value to the entity should be limited to its current replacement cost, consistent with the deprival value model. Where the Government chooses to sell the asset, it would then be carried at net selling price and the change in value reflected within that reporting period.

ACAG notes that applying an incremental value to assets 'not restricted in use' could have application issues in practice. The term 'assets not restricted in use' may introduce a high level of subjectivity into what constitutes restricted.

For example, using the office building example in paragraph B1, some entities could argue that the asset is restricted as the alternate location would result in significant staff loss. Other entities may argue that political restrictions not linked to service potential prevent relocation of operations.

Therefore, ACAG recommends that if such a concept is included within the Framework, 'not restricted in use' would need to be clearly defined.

Opinions of the Federation of Professional Councils of Economic Sciences (FACPCE)

Phase 3 ---Consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements;

Specific matter for comment 1
Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

Paragraph No.	Paragraph Reference	Opinion
1.15	**The Objective of Financial Reporting and the Qualitative Characteristics**	We consider it convenient to specify a combination of bases.

Specific matter for comment 2
If, in your opinion, the Framework should specify a measurement basis or combination of bases (or approach in the case of value deprival), which should it be?
Single Measurement Bases
(a) Historical cost.
(b) Market value.
(c) Replacement cost.
Combinations of bases/approach
(d) Deprival value.
(e) Historical cost and market value.
(f) Replacement cost and market value.
(g) Historical cost, replacement cost and market value.
Other
(h) Another measurement basis or a combination of bases/approach.
Please explain why you support particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

Paragraph No.	Paragraph Reference	Opinion
2.7	**Characteristics of Measurement Bases** The following highlight some of the areas in which the different measurement bases differ.	The right one would be a combination of HISTORICAL COST AND REPLACEMENT COST basis for its application depending on the most likely destination of the assets. Rationale: According to the type of asset and its likely destination, the measurement basis differs; also, in this

		way, there is a possibility of using another basis when the original one cannot be applied due to the difficulties mentioned, for example, if historical cost in paragraphs 2.6 and 2.9.
	Assets of the state, including those of natural public domain.	The measurement bases provided for in the document are not applicable to these assets, that is why another form of measurement should be considered.

Specific matter for comment 3

The Consultation Paper discusses the following measurement bases: historical cost, market value and replacement cost. It also discusses the deprival value concept, which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your opinion, is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach, in the case of deprival value).

Paragraph No.	Paragraph Reference	Opinion
5.16	**The Deprival Value Model** The measurement basis reflects the loss that the entity would sustain if deprived of the asset.	No comments.

Specific matter for comment 4

In your opinion, should:

(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and

(b) The effect of changes in own credit risk be reflected when the liabilities are subsequently remeasured?

Paragraph No.	Paragraph Reference	Opinion
Appendix A	**The Measurement of Liabilities and an Entity's Own Credit Risk**	No comments.

Specific matter for comment 5

In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

(a) Only the service potential relating to the existing use; or

(b) Include the incremental value relating to its possible sale for an alternative use.

Paragraph No.	Paragraph Reference	Opinion
Appendix B	**Assets that May be Sold for an Alternative Use**	When the assets are not restricted in their use, it is convenient to include the incremental value relating to their possible sale for an alternative use.

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Chief Executives Board for Coordination

Conseil des chefs de secrétariat des organismes des Nations Unies pour la coordination

SUBMISSION: Conceptual Framework Consultation Paper Phase 3: *Measurement of Assets and Liabilities in Financial Statements*

13 June 2011

Ms. Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto Ontario Canada M5V 3H2

Dear Stephenie,

Conceptual Framework Consultation Paper Phase 3

1 Thank you for the opportunity to comment on the Consultation Paper *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements.*

United Nations System Task Force on Accounting Standards

2 These comments represent the views of Members of the United Nations System Task Force on Accounting Standards (Task Force). The Task Force is an inter-agency group consisting of directors of accounting, chief accountants and chief financial officers from United Nations System organizations. The individual organizations that provided comments on this submission and concurred with its submission to the IPSASB are listed in Appendix 1. Where an individual organization disagreed with a particular recommendation but agreed to the recommendation going forward to the IPSASB, this has been noted against the individual recommendation in Appendix 2.

Importance of the Conceptual Framework

3 The Task Force appreciates the work that the IPSASB is carrying out in developing accounting standards for public sector entities and international organizations such as those making up the United Nations System. The Conceptual Framework Consultation Paper Phase 3 is an important development since it is part of a series of the expected consultations papers and exposure drafts of the IPSASB Conceptual Framework. The Conceptual Framework is envisaged to make explicit the concepts that are to be applied in developing IPSASs and other documents that provide guidance on

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information included in general purpose financial reports. All United Nations System organizations are looking forward to the development and finalization of the IPSASB Conceptual Framework.

General Comments

We support the IPSASB efforts in developing the Conceptual Framework and have the following general comments pertaining to our understanding of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*: *Measurement of Assets and Liabilities in Financial Statements (*Consultation Paper*)*:

The Consultation Paper recurringly refers to faithful presentation of the value of the asset when considering various measurement bases, especially market value basis. However, value of the asset is not an absolute dimension and can vary significantly based on what party it is assessed for. Whether it is (a) a value of the asset for the public sector entity which owns it, or (b) a value of the asset for the reporting entity that uses it, if different from owner, (c) a value of the asset for the users of GPFS, or (d) a value the asset to other comparable reporting entities, which might be applicable in the context of using information from deep liquid markets, it is not always apparent how a value of the asset is positioned in the discussion and this may need to be further clarified when the Consultation Paper progresses to draft Exposure Draft.

Specific Matters for Comments and Comments on Further Issues

5 Our detailed comments on the specific matters for comment identified in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*: *Measurement of Assets and Liabilities in Financial Statements* and further issues are attached as Appendix 2. The Consultation Paper did not contain specific matters for comments that required the Task Force to agree or disagree with the proposed reporting requirements, but rather to seek opinions on preferred approach for measurement of assets and liabilities as well as reflections on the technical discussion presented in the Consultation Paper. Our comments include positions of the Task Force on each specific matter for comment and explanations to support each position.

6 Should you have any queries on our comments, please contact Ms. Dinara Alieva, Financial Analyst, System-wide IPSAS Project Team at alievad@un.org.

Yours sincerely,

Chandramouli Ramanathan

Director, Accounts Division, United Nations
& Chair, Task Force on Accounting Standards
304 East 45th Street, Room FF-726
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ramanathanc@un.org

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APPENDIX 1: UNITED NATIONS SYSTEM TASK FORCE ON ACCOUNTING STANDARDS

Task Force Members from the following organizations reviewed this submission and concurred with its contents.

Organisation	Agree (Disagree)
1. FAO	Agree
2. IAEA	Agree
3. ICAO	Agree
4. ILO	Agree
5. IMO	Agree
6. ITU	Agree
7. PAHO	Agree
8. UN	Agree
9. UNDP	Agree
10. UNESCO	Agree
11. UNFPA	Agree
12. UNHCR	Agree
13. UNICEF	Agree
14. UNIDO	Agree
15. UNOPS	Agree
16. UNRWA	Agree
17. UPU	Agree
18. WFP	Agree
19. WHO	Agree
20. WIPO	Agree
21. WMO	Agree
22. WTO (Tourism)	Agree
23. UNWomen	Agree

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APPENDIX 2: CONCEPTUAL FRAMEWORK FOR GENERAL PURSPOSE FINANCIAL REPROTING BY PUBLIC SECTOR ENTITIES: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

In response to the IPSAS request for comments on these specific matters and whether they are agreeable:

Specific Matter for Comment 1
Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

Response:

The Task Force is of the view that the Conceptual Framework should retain a flexible approach, whenever possible, by not specifying preferred approach when options are considered to be interchangeably suitable depending on the specific circumstances of an item or a transaction to be reported in GPFSs of a reporting entity. Limiting the choice to a single measurement basis might prevent possible subjectivity and bias and might improve consistency of accounting policies used by prepares of GPFS, but may not result in useful presentation of information to users of GPFS, which is a superior goal of IPSAS compliant financial reporting. Specifying a combination of bases as options to be applied while measuring particular assets and liabilities may result in a more favorable approach, by eliminating guesswork from the process and promoting consistency and comparability of financial statements, provided that the specified combination of options satisfies the majority of circumstances related to measurement of assets and liabilities of entities reporting under IPSAS.

Specific Matter for Comment 2
If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single Measurement Bases

(a) Historical cost.
(b) Market value.
(c) Replacement cost.

Response:

The Task Force's position on this specific matter for comment echoes the position described above, in specific matter 1. The Framework should either allow preparers of GPFS to choose between different measurement bases or specify a combination of bases, provided that the latter will be applicable to nearly all public sector entities who may

wish to conform to the Conceptual Framework. No single measurement basis should be identified as preferred.

Combinations of Bases/Approach

(d) Deprival value.
(e) Historical cost and market value.
(f) Replacement cost and market value.
(g) Historical cost, replacement cost, and market value.

Response:

The Task Force is of the view that based on discussion regarding measurement bases in the Consultation Paper, if a combination of measurement is to be specified by the Conceptual Framework, it should be a combination of historical cost, replacement cost and market value, option (g).

Others

(h) Another measurement basis or combination of bases/approach.

Response:

The Task Force considers it highly unlikely that historical value could be forgone entirely in specifying measurement bases for assets and liabilities of public sector organizations. This assumption is based on understanding that all other bases involve a need to refer to monetary value of assets and liabilities at the reporting date ("current" bases) using deep liquid market information in relation to the entity's asset/liabilities and services it provides. Public sector entities usually operate non-cash generating assets and often provide services that are rarely available on the market, therefore practicality or even possibility of using "current" bases to achieve better presentation of assets and liabilities of public sector entity in its GPFS is highly questionable.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

Response:

The Task Force chose to support option (g), which includes a combination of historical cost, replacement cost and market value, and not to support options (a) through (f). The position of the Task Force on options (a), (b) and (c) was discussed above, in previous comments to specific matter 2, part 1. Option (d), which proposes use of deprival value measurement basis, was not supported as the Task Force was not presented with evidence that the use of this method would result in more superior outcome than tried and tested combination of historical cost, replacement cost and market value, whereas the cost of switching to a new measurement basis may be very significant for preparers of GPFS. If,

however, the IPSASB plans to present such evidence before this Consultation Paper is progressed to Draft Exposure Draft, the consideration of this option might be revisited. Options (e) and (f) were not supported based on two assumptions: (i) that disadvantages of each one of these bases may not be sufficiently covered by pairing up it with one additional measurement basis; and (ii) that refraining from limiting flexibility of preparers of financial statements to choose the most appropriate measurement basis, using their professional judgment, in order to meet needs of users of their GPFS is a preferred approach, provided there is no high degree of evidence to support the notion to narrow options.

Specific Matter for Comment 3
The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

Response:

The discussion of each of measurement bases was generally adequate. However, the Consultation Paper did not address strengths and weaknesses of combined measurement bases, options (e), (f) and (g), and there was no discussion regarding comparison of results produced by using (or continuing to use) combined measurement options as compared to using (or changing to) newly introduced deprival value basis of measurement.

Specific Matter for Comment 4
In your view, should:
(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and
(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

Response:

When a reporting entity assumes an operational liability, it should intend to settle it in full and therefore recognize/measure it in full in its GPFS, unless the entity is expecting to default. The concept of taking into account possibility of its own default when measuring its own liabilities contradicts with the going concern assumption and therefore is not a

relevant argument for this discussion. Examples included in the Consultation Paper seem to relate to cases when a public sector entity borrows funds or receives funds which are subject to subsequent repayment with intent other than to supply goods or deliver services. United Nations System organizations rarely to none engage in borrowing transactions and rely on resources provided by donors to carry out their mandated 'programme' activities. Liabilities of United Nations System organizations and many other public sector organizations with the same financing structure are mainly operational or otherwise related to their mandated activities, for example, settlements with employees, rather than to the need to sustain or expand level of operations which are usually triggering events for issuing a liability for a consideration. Governments are more exposed to transactions with issuing liabilities for a consideration, but they are extremely unlikely to be able to redeem their liabilities for less than the contracted value in reference to their credit risk situation. For instance, Government bonds, which are the most widely used mode for issuing liability for a consideration by governments, are usually considered to be risk-free investment. Hence the view of the Task Force is that the effect on an entity's own credit risk in measurement of liabilities is a concept less relevant to the public sector entities.

Specific Matter for Comment 5
In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:
(a) Only the service potential relating to the existing use; or
(b) Include the incremental value relating to its possible sale for an alternative use?

Response:

The Task Force is of the view that the issue of alternative use of an asset and resulting consideration towards choice of related measurement techniques to be applied to such asset (replacement cost or incremental value) should be triggered only if and when a reporting entity actually considers selling such asset. In this case the reporting entity should be given a choice to use incremental value, provided that there is a high degree of evidence to support it, or service potential value. If, however, the reporting entity plans to continue using an asset in carrying out activities to achieve its performance objectives, regardless of whether it could or could not be sold for alternative use, such asset should be measured using the same basis as all other assets of the entity used in carrying out its activities.