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Ottawa, Canada
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JUN 15 2011

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

Dear Sir/Madam:

Re: Consultation Paper - 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 comment on the Consultation Paper – *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements* (CP) that was issued in December 2010.

The Government of Canada bases its accounting policies on the Accounting Standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is therefore not required to follow the International Public Sector Accounting Standards (IPSAS). However, given that PSAB is reviewing its conceptual framework and will use the work of IPSASB in its deliberations, we have a vested interest in the CP. As well, IPSAS are an important secondary source of GAAP.

The attached Annex responds to the questions raised in the CP.

We thank you again for providing the opportunity to comment on this CP. If you have further questions related to these comments, please do not hesitate to contact

Canada

either Ms. Diane Peressini at Diane.Peressini@tbs-sct.gc.ca (613-957-9671) or myself at Suzie.Gignac@tbs-sct.gc.ca (613-952-0886).

Yours sincerely,



Suzie Gignac
Executive Director
Government Accounting Policy
and Reporting Division

c.c.: James Ralston, Comptroller General of Canada

Att.

Annex

Response Questionnaire: Measurement of Assets and Liabilities in Financial Statements

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 framework should identify factors relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances. To ensure relevance and representational faithfulness of amounts reported in the financial statements, the nature of specific assets and liabilities must be considered in determining the appropriate measurement basis.

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.

We feel that historical cost should be the primary basis on which assets and liabilities are measured in the financial statements. In certain circumstances where there is a liquid market, market value may be an appropriate basis of measurement for certain financial assets or liabilities. In our view, the entry value is more relevant for financial statement

presentation as it reflects the amount paid or to be paid to purchase an asset or settle a liability and reflects actual decisions made.

Historical cost is the preferred approach as it provides information that is verifiable for the preparation of financial statements. Historical cost reduces complexity in the financial statements which therefore leads to financial statements which are better understood by users. Supplementary disclosures, which provide information to users on current values, can also be provided if warranted by the preparer based on an assessment of user needs. Historical cost also provides a better basis for comparison to budget. Other measures increase the level of subjectivity in assessing value and thus could lead to issues with respect to the audit of balances.

For public sector financial statements, the key objectives are to provide information about the entity useful for accountability and decision making purposes. In the private sector, creditors may look to current values of assets to assess creditworthiness or investors may look to net asset position to assess the value of an entity. However, in the public sector, the current value of assets is less critical in determining and assessing government performance and creditworthiness. Financial statements should depict whether revenues earned in the period were sufficient to pay current expenses and to what extent there has been an intergenerational transfer of wealth – i.e. will future taxpayers be required to pay for current decisions made by the government? We disagree with the discussion on relevance in paragraph 3.5 of the market value approach since in the public sector a government may be required to maintain an asset that is worth less than market value in order to provide certain public services. Often, a government does not have the choice or ability to liquidate capital assets to realize on market value. Thus, measurement of assets at market value is not relevant. As well, it does not enhance accountability as values of assets may be overstated if assets cannot be sold due to intended use or nature, and as a result, unrealized gains or losses may be misinterpreted by users. In particular, gains may be perceived as available funds for program delivery, which does not reflect the reality.

Measurement bases, such as replacement cost and market value, which place more emphasis on the current value to replace an asset or the amount a government could realize if the asset was sold, are not relevant to assess government performance and accountability. Paragraph 4.14 discusses the usefulness of separately disclosing costs based on actual transactions (for accountability) and costs based on current prices (to assess future resource needs). This approach would result in two measures of performance which would not be clear to users in assessing government performance.

We don't believe the deprival model should be considered by IPSASB. It brings in significant judgment and estimates, which in our view, will greatly diminish the relevance of government financial statements.

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 discussion did not reflect public sector circumstances at all times. Government financial statements are used to assess accountability and the extent to which taxes earned finance current year expenses. The consultation paper incorporates many aspects that are more suited to the private sector and not applicable to the public sector. For example, there is a strong focus on economic benefits related to assets, while in the public sectors assets are generally used to provide services rather than to generate cash. The discussion appeared to us to presume that the Asset/Liability approach for revenue and expense recognition was the best approach despite the fact that the issue was subject to comment as part of the consultation process for the conceptual framework project. The paper also did not discuss the tax policy impacts that could arise from a move to current value accounting; in particular for jurisdictions that require balanced budgets.

In your view, should:

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

The entity's own credit risk is inherently reflected in the value of assets and liabilities through the selection of discount rates used where present value techniques are employed to determine asset values or in discount rates used for the actuarial valuations of employee future benefits. Premiums/discounts on issuance of debt are also reflected

based on the current interest rates earned on debt issue, which reflect the entity's credit risk.

We feel the effect of an entity's own credit risk should not be reflected in the subsequent measurement of liabilities due to the paradoxical results as noted in the consultation paper that result in gains when an entity's financial position has deteriorated. Since we feel that public sector assets, for the most part, should be reflected at historical cost, by considering an entity's own credit risk in the measurement of liabilities, the change in value of the liabilities will not be reflected in the same way as changes in value of assets under the historical cost basis of accounting.

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?

As noted above, we believe that historical cost is the most relevant basis of measurement. Therefore, any incremental value related to the possible sale of an asset for alternative use is not relevant in the measurement of an asset's value. The only exception would be if the value from potential sale of an asset provides evidence of impairment, which would require a write down of the asset value.

20 June 2011

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

Submitted to: www.ifac.org

Dear Stephenie

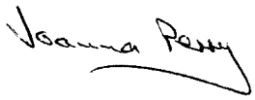
Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants is pleased to submit its comments on the IPSASB's Consultation Paper *Measurement of Assets and Liabilities in Financial Statements*. Our detailed comments are set out in an Appendix to this letter.

In our opinion, the most critical measurement issue is identifying the measurement objective. The IPSASB's conceptual framework project is directly addressing the issue of the objectives of financial reporting. However, we consider that the IPSASB also needs to focus on the measurement objective in order to be able to develop consistent standards level guidance.

If you have any queries or require clarification of any matters in this submission, please contact Joanne Scott (joanne.scott@nzica.com) in the first instance, or me.

Yours sincerely



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Appendix – FRSB comments on the 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?

In the Consultation paper the IPSASB has discussed the attributes of various measurement bases in terms of how well they meet the proposed objectives of general purpose financial reporting and qualitative characteristics of accounting information. Although this approach is consistent with that taken by the IASB and the FASB[1] we do not consider that application of the qualitative characteristics provides a sufficient basis for differentiating between measurement bases.

We agree with the view expressed in a report by the Institute of Chartered Accountants in England & Wales (ICAEW, 2006)[2] that cost-effectiveness and fitness for purpose should be the overriding tests for forming a view on the appropriateness of measurement bases. We are also of the view that, in the absence of direct evidence on cost-effectiveness and fitness for purpose, relevance and reliability are secondary characteristics that may be used. The ICAEW report argues, and we agree, that these qualitative characteristics are relevant in decisions about measurement bases to the extent that they describe qualitative benefits that would figure in such tests in the absence of (or in addition to) any quantifiable measures of benefits. If the accompanying costs (which would include perverse effects) exceed the benefits, then the proposal would not pass the cost-effectiveness test.

We support the idea that measurement must be fit for purpose. The question is – what is that purpose? We consider that a clear concept of wealth (often referred to as the concept of capital) is required before it is possible to discuss alternative approaches to the measurement of wealth. We therefore consider that the IPSASB needs to consider the overall measurement objective in the context of concepts of capital. We believe it is imperative to identify a comprehensive and conceptually ideal single model for measurement. Such a model may not provide all the answers but it would help guide the selection of measurement bases at a standards level – we acknowledge that a single model may not be reflected in all IPSASs requirements in the foreseeable future. It will also help to ensure that measurement requirements at a standards level are not considered on an ad hoc basis.

For example, is the purpose of a GPFR in the public sector to provide information on whether an entity has maintained (i) the level of funds invested in the entity during the period (a financial concept of capital which can be measured either in nominal monetary units or in units of constant purchasing power) or (ii) the ability of the entity to continue to deliver goods and services (an operating capability concept of capital)?

Our answer to this specific matter for comment is therefore mixed. We agree that the role of the Framework is to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities but we consider that these factors should be subservient to an overall measurement objective. We do not agree that the Framework should identify factors that are relevant to selecting a measurement basis for particular assets and liabilities *in specific circumstances* [our emphasis added]. We consider that this is a standards-level issue.

1 The FASB's and IASB's objective for measurement in the common conceptual framework "is to provide guidance for selecting measurement bases that satisfy the objectives and qualitative characteristics of financial reporting" (FASB, 2009, "Project update," http://www.fasb.org/project/cf_phase-c.shtml)

2 Institute of Chartered Accountants in England & Wales, October 2006, Information *for Better Markets, Measurement in financial reporting*

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.

We do not consider that the Framework should specify a single measurement basis. We therefore do not support (a), (b) or (c).

At present we are unable to offer a firm view on the combinations of bases or approaches that should be adopted (options (d) to (g)). This is because we consider that the concept of capital should guide the measurement objective and the selection of 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).

The CP does not discuss fair value. We think that the use of fair value needs to be explicitly considered. We understand that the IPSASB has some reservations about the validity of some of the assumptions underlying fair value measures and may have been trying to avoid some of the confusion associated with inconsistent use of the term “fair value” in IFRSs. However, given the current use of fair value measures in international financial reporting standards (including IPSASs), and in international valuation guidance, we think that the Framework should explicitly describe and evaluate fair value as a measurement basis. We consider that it would be appropriate for the Framework to put forth a view on the appropriateness of the fair value measurement objective enshrined in the revaluation model in IPSAS 17 *Property Plant and Equipment* for public sector entities.

Discussion of fair value and the proxies that are often used as fair value measures would also help users to understand the links between fair value and other measurement bases such as replacement cost. Paragraph 3.13 notes that in the case of specialised assets market values may be excessively hypothetical and suggests that in such cases replacement cost “provides an alternative measurement basis”. In such circumstances we are not sure that replacement cost is actually an alternative measurement basis. We are keenly interested in identifying when *and why* it would be appropriate to use depreciated replacement cost as a proxy for fair value?

In ED TIP 2 *Depreciated Replacement Cost*, the International Valuation Professional Board has stated "The DRC method can be used to give an indication of value on a variety of bases. If the purpose of the valuation requires a market basis, such as market value or fair value for financial reporting purposes it is important that all the valuation inputs are based as closely as possible on market derived data."

We consider that more discussion of the differences between market entry prices and market exit prices is warranted. Paragraph 3.3 of the CP notes that market values may represent an entry or an exit value. However, the CP does not discuss the differences that may exist between the two and when one or the other would be more appropriate. We note that when entry prices are used as a proxy for exit prices, the assumptions that are used to identify replacement costs differ from those that would be used if replacement costs were being used as a market entry price.

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?

The FRSB considers that the treatment of own credit risk is a standards level issue. The issue of own credit risk arises in relation to the use of fair value as a measurement base. Where future cash flows will not change as a result of changes in an entity's credit rating, credit risk is not relevant.

We support consistent application of principles across differing types of liabilities. However, we consider that individual standards need to consider the nature of liabilities and the most faithfully representational way to reflect the economic realities associated with those liabilities. The economic realities underlying traded financial liabilities and provisions are quite different. For example, changes in own credit risk will not have an impact on the cash flows required to settle obligations recognised by way of a provision and should not be reflected in measurement of those provisions.

In our cover letter we suggested that the IPSASB consider the objective of measurement at a framework level. In addition, we consider that the IPSASB should seek to develop a measurement objective for standards dealing with the measurement of liabilities. These measurement objectives should guide the selection of measurement bases. Only then can the treatment of own credit risk be considered.

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?

At a framework level we consider that the answer to this question depends on the measurement objective. For example, the answer would differ depending on whether the objective is to show the cost of previously acquired resources that are being used in producing goods and services or whether the objective is to reflect the cost of having capital tied up in the activities of the entity.

Technical Director
IPSASB-IFAC
Stepheniefox@Ifac.org

Conceptual Framework for GPFR by Public Sector Entities- Assets and Liabilities-Phase 3
Due 6- 15- 2011

Comments By: Dr. Joseph S. Maresca CPA, CISA

Background
In the accrual basis of accounting, events are recognized at occurrence or in periods to which they relate. The guidance seeks minimum divergence in reporting.

Critique:

Comment 1:
The role of the framework is to select factors relevant to the selection of a measurement basis rather than selecting a single measurement basis.

I concur. A single measurement basis may not be relevant in a dynamically changing environment with multiple dependent conditions, changing markets and unpredictables too numerous to enumerate.

Comments 2, 3: The single measurement basis consists of historical cost, market or replacement cost. The deprival value seeks to have a basis relevant to the circumstances. Historical cost or market is another basis, as is replacement cost or market value. Historical cost, replacement and market value are another combination valuation.

I concur. Historical cost may not be relevant due to price changes or technological obsolescence. The VIX index is a measure of extreme market variability; such as, the conditions of the 2008 market crash and aftermath. A brand new technology like "cloud computing" can render previous technologies obsolete. Even nuclear technologies can change. The "Artificial Sun-Tokamak" is a fusion-based technology that could replace nuclear fission in the not too distant future.

The historical cost basis may be useful to compare costs v. budget. pp. 17
In addition, historical cost is not necessarily comparable. pp. 18

When financial statements are on the historical basis, there may be a write-down of surplus or obsolete assets to the net selling price. pp. 11

Market valuation may be a more relevant benchmark for highly specialized assets in the public sector like a brand new "cloud computing" computer infrastructure. Cloud computing is a set of pooled computing resources delivered via the internet. The cloud delivers a hosting environment that doesn't limit an application to a given set of resources. Depending upon the platform, an application can scale dynamically and increase its share of resources in real time . The advantage of market value is relevancy. pp. 20

GFSM 2001 requires the use of current values which is not consistent with the historical cost. pp. 19

Replacement cost may be utilized for assets held to provide services.
Current value is in essence the replacement cost. Replacement cost reflects age and asset condition, as well as a stable technology.
A rapidly advancing technology like cloud computing, the "Artificial Sun"

and nanotechnology have important enhancements on a more frequent basis.

For instance, suppose a major data center is destroyed overnight by a Tsunami. The replacement cost might be an indicator of value for insurable interest purposes since the valuation reflects age and asset condition. Contrast the replacement cost with the deprival method. For instance, the deprival method may be the most relevant basis for determining a loss. The deprival method can be the lower of replacement cost or the recoverable amount. For this reason, data redundancy and data tridundancy may be employed to protect the value of the data itself.

The recoverable amount of the asset may be the higher of its value in use, the present value of the asset's remaining service or the net selling price to be received for a sale at the reporting date.

Comment 4- The effect of credit risk should be reflected in the measurement of liabilities at initial recognition or the effect of changes in credit risk should be reflected when liabilities are remeasured subsequently. 5.38 / pp. 34 indicates that the relevant cost is the release in settlement of a claim.

Comment 5- Where assets aren't restricted for use and can be sold for alternative use, should the measurement reported in financial position reflect the service potential for existing use or incremental value for possible sale or alternative use. The answer may be the method most practical or justifiable given the circumstances.

To fulfill objectives, elements qualitatively should be relevant, faithfully representative, understandable, timely, comparable and verifiable. The concept of reliability may apply more importantly to engineering environments where equipment reliability is at issue as in nuclear power plant maintenance and operability during earthquakes . Productivity goals may be set too high for oil platforms resulting in major oil spills due to equipment malfunctions when equipment utilization exceeds 100% of capacity. pp. 15

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1 July 2011

Ms Stephenie Fox
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CANADA

Dear Ms Fox

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

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Consultation Paper (CP). In formulating its comments, the AASB considered the views received from Australian constituents.

General Comments

Relationship between the IPSASB and IASB Conceptual Framework projects

The AASB supports the IPSASB's development of a conceptual framework for public sector entities as a high priority project. The AASB considers it important that the IPSASB and IASB Conceptual Frameworks are complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ (if at all) only where necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports who read financial reports across all sectors in the economy.

Such an outcome would foster the achievement of transaction neutrality, under which a given transaction or other event is accounted for the same way, regardless of the nature of the entity (whether for-profit or not-for-profit) and the sector in which the entity operates. The AASB considers that transaction neutrality is important for ensuring information reported by any entity is relevant, representationally faithful and comparable.

The AASB encourages the IPSASB and IASB to work together as closely as possible to achieve complementary Conceptual Frameworks and, in the development process, to leverage off each other's work.

In jurisdictions, such as Australia, that have a single Conceptual Framework for all reporting entities, complementary IPSASB and IASB Conceptual Frameworks would greatly assist with incorporating aspects of the IPSASB Conceptual Framework to address public-sector-specific issues.

Due process

The AASB acknowledges that this is a substantial project and that the IPSASB is working towards completion of a final Conceptual Framework in March 2013. However, given the interrelationship of the various phases, it encourages the IPSASB to leave open the possibility of issuing an ED of the full Conceptual Framework once EDs have been issued, and comments thereon reviewed, in respect of all phases of the project.

Specific Comments

The AASB's most significant specific comments regarding the issues in the CP are set out below and elaborated on in Appendix A.

Role of the Measurement chapter of the IPSASB Conceptual Framework

The AASB disagrees with limiting the role of the Measurement chapter of the IPSASB Conceptual Framework to identifying factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances. The AASB considers the primary role of the Measurement chapter of the IPSASB Framework should be to identify a comprehensive and conceptually ideal single model for measurement. The possibility of departing from that model can be considered at the Standards level.

Concepts of capital and capital maintenance

The CP's analysis of different measurement bases relies heavily on the extent to which the qualitative characteristics would be met under them. However, the AASB considers that the qualitative characteristics do not provide a sufficient foundation for choosing between measurement bases. It is necessary to first identify the most appropriate concept of capital and concept of capital maintenance. Therefore, the AASB recommends that the ED of the Measurement chapter should include an evaluation of concepts of capital and capital maintenance. Without an idea of the stock of an entity's wealth (however measured), it is difficult to define the reporting entity, the elements of its financial statements or the appropriate measurement model. Until concepts of capital and capital maintenance are adequately addressed and the AASB conducts due process in respect of them, the AASB is not yet able to provide preferred views regarding the measurement basis or bases that would best meet the objective of general purpose financial reporting by public sector entities.

IPSASB Conceptual Framework Consultation Paper on Phase 3 – AASB submission

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The AASB's responses to the Specific Matters for Comment in the CP are set out in Appendix A (supported by elaboration of comments on one issue in Appendix B).

The AASB has a wide range of other comments on the CP. These are set out in Appendix C.

If you have any queries regarding matters in this submission, please contact me or Jim Paul (jpaul@aasb.gov.au).

Yours sincerely



Kevin Stevenson
Chairman and CEO

APPENDIX A

AASB's Response to the Specific Matters for Comment on the CP

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?

Role of the Conceptual Framework

The AASB disagrees with limiting the role of the Measurement chapter of the IPSASB Conceptual Framework to identifying factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances. The AASB considers that the primary role of the Measurement chapter of the IPSASB Conceptual Framework should be to identify a comprehensive and conceptually ideal single model for measurement. This applies regardless of whether:

(a) that model may reasonably be expected to be reflected in IPSAS requirements in the foreseeable future; or

(b) the chapter also includes conceptual guidance to help the IPSASB make incremental improvements to measurement requirements in IPSASs (which the AASB would support). Unless the IPSASB Conceptual Framework identifies a conceptually ideal single model for measurement, it seems highly likely that measurement requirements in different IPSASs would reflect consensus-building on a Standard-by-Standard basis, reflecting the changing composition of the IPSASB from time to time and the implicit framework of each IPSASB member. Such an approach is likely to result in *ad hoc* measurement requirements that lack overall coherence.

The AASB observes that measurement requirements in IPSASs (consistently with those in IFRSs) presently lack coherence. For example:

(a) different assets are measured variously at historical cost (for example, some items of property, plant and equipment), fair value (some investment properties), fair value plus directly attributable transaction costs (some financial assets), fair value less costs to sell (biological assets), and value in use (some impaired assets);

(b) different liabilities are measured variously at the amounts paid by customers for promised goods and services (liabilities to customers in revenue arrangements) and the estimated cost to the entity of providing promised cash, goods or services (employee benefits and other provisions); and

(c) the treatments of revaluation increases differ between different IPSASs and, similarly, between different IFRSs. Under IPSAS 17/IAS 16 *Property, Plant and Equipment* and IPSAS 31/IAS 38 *Intangible Assets*, revaluation increases are

generally credited directly to equity (i.e., outside the profit or loss/result).[1] This treatment is consistent with adopting an operating capability concept of capital maintenance (see comments below on concepts of capital and of capital maintenance). However, under IPSAS 16/IAS 40 *Investment Property* and IPSAS 27/IAS 41 *Agriculture*, revaluation increases are recognised in profit or loss/result. This treatment is consistent with adopting a nominal dollar concept of capital maintenance. Thus, the differing treatments of revaluation increments in IFRSs reflect a mixture of concepts of capital maintenance.[2]

The measurement bases described in (a) and (b) above differ in respect of whether:

(a) historical or current prices are used; and

(b) estimated cash flows reflected in the measurement are those of the entity or those of other market participants.

These examples illustrate the pressing need for a single conceptual measurement model to provide a foundation for developing consistent measurement requirements.

Identifying a single conceptually ideal measurement model would not remove the IPSASB's discretion to develop or retain requirements that differ from that model in individual IPSASs. The AASB considers that there is no harm in signalling the direction in which financial reporting requirements should ultimately evolve while acknowledging that, for cost/benefit or other reasons, various of those requirements will not change at present. Identifying a conceptually ideal measurement model would make the IPSASB's decision making more transparent, because the IPSASB would need to explain its reasons for the decisions it makes in developing or amending individual IPSASs. This would enhance the IPSASB's accountability.

Accordingly, the AASB recommends including in the Executive Summary a comment along the following lines: "The IPSASB Conceptual Framework chapter on Measurement may be used selectively in individual IPSASs for particular assets and liabilities in specific circumstances. It could also provide the basis for more general reform over time of measurement requirements in IPSASs."

Concepts of capital and capital maintenance

The AASB is strongly of the view that, in order to identify a comprehensive and conceptually ideal single model for measurement, it is necessary to identify a preferred concept of capital (in relation to measuring assets, liabilities and, by deduction, equity/net assets) and a preferred concept of capital maintenance (in relation to measuring the period's financial result).

Any set of financial statements will reflect a concept, or number of concepts, of capital and capital maintenance. The choice is whether to explicitly identify a particular concept of

[1] This treatment applies unless the revaluation increase reverses a revaluation decrease for the same asset (or same class of assets) previously recognised in profit or loss/result.

[2] This discussion of the treatment of revaluation increases is not meant to imply a view about the merits or otherwise at a Standards level of the current distinction between profit/result and other comprehensive income.

capital and a particular concept of capital maintenance, or for a mixture of contradictory concepts to be implicitly embedded in the measures of the financial statement elements.

Applying a mixed measurement model causes different financial statement elements to reflect different economic concepts of value. Consequently, the resulting measures cannot meaningfully be added or validly compared. To illustrate: the sum of the historical cost of an item of equipment and the current net market selling price of a parcel of land has no economic meaning, because different measurement scales are applied to the two assets.

Further details of the AASB's view and an explanation of the importance of identifying and considering concepts of capital and capital maintenance are presented in Appendix B to this submission.

Other comment

The AASB recommends assuming in the IPSASB's ED of a Measurement chapter that historical cost and current value are materially different. This is because the purpose of the Measurement chapter should be to provide conceptual guidance for identifying a conceptually ideal single model for measurement, regardless of whether that model is required (in part or in full) in IPSASs. The Executive Summary to the CP says historical cost "may … not be as relevant as other measurement bases, *particularly* where price changes are significant" (emphasis added). The implication of this statement that, in practice, historical cost and current value may in some cases be materially the same detracts from the importance of identifying the conceptually ideal measurement model (or, at the very least, which measurement attributes are appropriate). Since the purpose of the conceptual analysis in the Measurement chapter should be to help identify which measurement concepts should be preferred to others when they give rise to different amounts, there seems little point in acknowledging that in some cases historical cost and current value may be similar.

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

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

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

At this stage, the AASB does not propose a particular preferred measurement model or basis. A decision about that issue requires extensive due process by the AASB. In addition, the AASB considers that preferred concepts of capital and capital maintenance should guide the selection of measurement bases. In order to make conclusions about measurement bases, the AASB first needs the IPSASB to analyse and make recommendations about concepts of capital and capital maintenance.

The AASB observes that "historical cost and market value" is identified above as a possible combination of measurement bases, but "historical cost and recoverable amount" is not identified above, despite the comment in paragraph 2.16. The AASB considers that, logically, "historical cost and recoverable amount" should have been identified, particularly given the widespread use of this combination in current practice.

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).

The AASB considers the CP's discussion of measurement bases is incomplete in three respects:

(a) as noted in the comments on Specific Matter for Comment 1, and most significantly, it does not base the evaluation of measurement bases on an analysis of concepts of capital;

(b) it does not evaluate fair value as a possible measurement basis, although fair value is widely used in IPSASs and IFRSs. The AASB recommends that the ED of the Measurement chapter of the IPSASB Conceptual Framework evaluates fair value as a measurement basis. The AASB was not convinced by the reason given in paragraph 1.14 of the CP for not evaluating fair value, because IFRS 13 *Fair Value Measurement* is not the vehicle in which the IASB intends evaluating fair value as a concept; and

(c) its coverage of liability measurement is inadequate, except in relation to the relief value of liabilities.

In addition, the AASB considers that the ED of the Measurement chapter of the IPSASB Conceptual Framework should address the unit of measurement; that is, whether the change in the purchasing power of the monetary unit is a phenomenon that should be accounted for. The answer to this question depends, in part, on the concepts of capital and capital maintenance adopted.

Market values

The CP discusses 'market values' as a measurement basis (Chapter 3). It does not specifically acknowledge the fundamental conceptual difference between market buying prices and market selling prices (see paragraph 3.3). The main problem with focusing on 'market value' or 'current exchange value' as the price at which buyers and sellers meet is that preparers of financial statements are in either or both positions for an asset or liability (for example, an entity that buys goods from wholesalers and sells the goods and related services at a profit in a retail market). For them, entry and exit values are not the same because they are found in different markets and, depending on the measurement basis, transaction costs are either added to or deducted from the market price.

In addition, some of the analysis of market values implicitly assumes a market value would be an exit or selling price (see paragraphs 3.12 – 3.13) and criticises market values from that standpoint. The discussion in these paragraphs of the limitations of market values for measuring a public sector entity's specialised assets reflects an implicit assumption that market values are exit prices, because they discuss the price that a potential purchaser would pay. (For example, paragraph 3.13 speaks to a work-around of the exit price principle in IFRS 13 *Fair Value Measurement*.) If market *buying* prices could qualify as 'market prices', there would be no need to make hypothetical assumptions about the characteristics of a potential purchaser (as the counterparty in a sale of the asset by the entity). Therefore, the AASB is not convinced that the description of market value in paragraph 3.3 (as accommodating exit and entry values) is consistent with the discussion in paragraphs 3.10 – 3.13.

Accordingly, the AASB recommends that the ED of the Measurement chapter of the IPSASB Conceptual Framework should give greater acknowledgement of the differences between market entry prices and market exit prices, and should discuss (based on a preferred concept of capital) which of them is more appropriate.

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?

The AASB considers that the treatment of an entity's own credit risk in the measurement of its liabilities should be excluded from the IPSASB's Conceptual Framework ED on Measurement, because it is a standards-level, rather than a concepts-level, issue. The following comments apply if the IPSASB decides to retain this issue in its draft Conceptual Framework.

The AASB agrees with the statement in paragraph A3 that the treatment of an entity's own credit risk should depend on the measurement basis adopted. The AASB considers this is the key point made in Appendix A to the CP, and that the measurement basis will in turn depend on the concept of capital adopted (see the last paragraph of comments on this Specific Matter for Comment for elaboration). As indicated in the comments on Specific Matter for Comment 1, the AASB has yet to develop a preferred view of the concept of capital and measurement model that should be adopted conceptually.

The AASB considers that the discussion of the treatment of an entity's own credit risk seems inconsistent. This is because, although paragraph A3 says the treatment should depend on the measurement basis adopted, the subsequent discussion in Appendix A implies the treatment is independent of the measurement basis adopted. For example:

(a) paragraph A4 notes an argument that "An entity's own credit risk is one of the factors that affect the current value of its liabilities, and so the relevance of the amount of the liability is enhanced if it is stated at an amount that reflects the entity's credit risk." This argument seems to be contradicted by the exclusion of own credit risk from some current value measures, such as current fulfilment cost and the price to transfer a performance obligation to a third party; and

(b) paragraph A11 notes the argument that "From the perspective of the entity the possibility of its own default is irrelevant, and so an entity's own credit risk should not be reflected in its financial statements. To do so is inconsistent with the going concern assumption on which financial statements are based." However, if the measurement basis selected for an entity's loan liabilities is current exit price, the entity's own credit risk should be included in its measurement.

The issue of how to treat an entity's own credit risk in current measures of the entity's liabilities illustrates the importance of deciding which concepts of capital and capital maintenance to adopt. An IASB staff paper[3] accompanying an IASB DP on the treatment of own credit risk (issued in June 2009[4]) notes the argument of some commentators that a gain from remeasuring a liability due to a decline in the credit quality of the entity's liabilities does not reflect that future borrowings will be more expensive (paragraph 50). Placing this argument in the context of applying a concept of capital maintenance: some who support measuring the negative value of capital attributable to an entity's liabilities as the current cost of replacing those liabilities (using the entity's current borrowing rate) argue that a gain from a decline in the credit quality of an entity's liabilities would be offset by the increased cash outflows associated with a replacement loan, and therefore that the entity's capital has not increased.

[3] Wayne S Upton Jr, Project Principal, IASB staff paper, *Credit Risk in Liability Measurement*, June 2009.
[4] IASB Discussion Paper DP/2009/2 *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?

The AASB considers that the uses of non-financial assets taken into account in measuring those assets should depend on the ideal concept of capital chosen.

For example, if a concept of capital that emphasises financial flexibility (e.g., current cash equivalents) were preferred, the answer to this question should be (b). If the preferred concept of capital were operating capability, the answer would generally be (a).[5]

The AASB does not express an overall conclusion on this issue, because it has yet to form a preferred view of the concepts of capital and capital maintenance that should be adopted.

[5] Some commentators consider that if an asset could be sold and reinvested in activities producing the same goods and services at a lower cost, the surplus value should be included in the measurement of the asset's depreciated replacement cost. However, the circumstances in which this could occur would be likely to be fairly limited.

APPENDIX B

Concepts of Capital and Capital Maintenance

As mentioned in the AASB's comments on Specific Matter for Comment 1 in Appendix A, the AASB is strongly of the view that, in order to identify a comprehensive and conceptually ideal single model for measurement, it is necessary to identify a preferred concept of capital (in relation to measuring assets, liabilities and, by deduction, equity/net assets) and a preferred concept of capital maintenance (in relation to measuring the period's financial result). This is discussed below.

The CP's analysis of different measurement bases relies heavily on the extent to which the qualitative characteristics would be met under each measurement basis. However, the AASB considers that the qualitative characteristics do not of themselves provide a sufficient foundation for choosing between measurement bases. It is necessary to identify the most appropriate concept of capital, based on an assessment of how well applying each concept of capital would satisfy the qualitative characteristics, before considering measurement bases. Therefore, the ED of the Measurement chapter should include an evaluation of concepts of capital.

The CP discusses measurement bases that would be consistent with particular concepts of capital. However, in the CP, the choice of a concept of capital is not a 'driver' for choosing between measurement bases. Also, the CP does not evaluate which concept of capital would be conceptually ideal.

Concept of capital

In the context of measurement, an entity's 'capital' is another name for an entity's wealth. In choosing a concept of capital, one decides what aspect or measure of wealth (and claims to that wealth) should be portrayed in measures of the entity's assets and liabilities.

A concept of capital determines the basis of measurement that should be applied to assets and liabilities. Examples of concepts of capital discussed in the accounting literature are:

(a) invested money capital, which includes: for assets, the original dollar amounts invested in them that have yet to be consumed; and for liabilities, the unearned portion of the amounts originally paid by customers for promised goods and services, plus unrepaid amounts of previous borrowings (these amounts comprise the entity's *nominal* money capital; if the concept of capital adopted were the current purchasing power of invested money capital, the amounts of capital originally invested would be adjusted for subsequent changes in the general purchasing power of money);

(b) current cash equivalents, which includes: for assets, the net amounts for which they could immediately be sold; and for liabilities, the amounts for which they could immediately be redeemed or transferred to another entity (these exit price measures of assets and liabilities would be reported if the measurement objective is to reflect the entity's short-run adaptive capacity); and

(c) operating capability, which includes: for assets, the amounts the entity would currently need to pay to acquire them (their current cost); and for liabilities, the current cost of the assets the entity expects to consume in providing promised goods and services to customers, plus the present value of outstanding loans discounted at a current borrowing rate (these amounts of assets and liabilities represent their current cost. An entity's operating capability is its ability, at any given time, to carry out its activities at the scale determined by its then-existing resources. Adopting operating capability as the concept of capital takes a longer-run perspective than adopting current cash equivalents as the concept of capital).

Each of these concepts of capital has a different objective and can provide a different picture of the entity's financial position. The choice of a concept of capital should be based on which of them provides the most useful information for decision making (including for assessing accountability). If a particular concept of capital is chosen, each asset and liability should be measured consistently with that concept. Then users of financial statements would have a clear idea of the meaning (significance) of the amounts reported, in respect of each separately disclosed class of elements and also for the financial statements viewed in their entirety. To illustrate: current practice for various public sector entities in some jurisdictions is to regularly revalue their property, plant and equipment while measuring their debts at amortised cost. Taking price changes into account in measuring assets, but not liabilities, impedes an understanding of the significance of the financial statements viewed in their entirety—this would not occur if all elements were measured in accordance with a particular concept of capital.

Choosing a concept of capital provides a basis for identifying which economic phenomena affecting an entity should be taken into account when measuring the entity's financial statement elements. For example, it provides a basis for identifying whether an entity's own credit risk (and changes in that risk) should be taken into account when measuring the entity's liabilities. This is discussed further in the response to Specific Matter for Comment 4.

Concept of capital maintenance

The concept of capital maintenance determines whether and, if so, how the measure of the opening balance of equity needs to be adjusted before identifying the result for the period. Thus, it determines whether, and the extent to which, changes in the measures of assets and liabilities affect the entity's result.

Some commentators argue that identifying concepts of capital and capital maintenance is unnecessary. They say the key issue is deciding whether to recognise price changes affecting assets and liabilities when those prices change.

However, this is only part of the issue. Consider a for-profit entity example of an oil refining company that holds large volumes of refined oil when the prices of refined oil double within the current period. Say the current cost to buy unrefined crude oil plus the current cost of refining that oil (that is, the sum of market buying prices of the refined oil) jumps from US$40 to US$80 per barrel, and that the current selling price of the refined oil jumps from US$60 to US$120 per barrel.

Assume it were agreed that the company's stocks of refined oil should be measured at current prices. One still needs to choose which price: the current buying price (US$80) or the current selling price (US$120). This decision should be based on the concept of capital adopted. Assume further that one chooses the current market buying price (US$80).

Then one needs to decide whether the recognised price change of $US40 per barrel should be treated as revenue or credited directly to equity. This decision should be based on the concept of capital maintenance adopted. For example, under an operating capability concept of capital maintenance, the increase in current cost would be credited directly to equity because it does not represent an increase in the entity's operating capability—it simply reprices the same service potential. Although the increase in current cost of the refined oil coincides with an increase in the current selling price of the refined oil (thus increasing the margin on its historical cost), the company's ability to carry out its activities has not improved. This is because, when the entity sells the refined oil, it needs to replace the refined oil at a correspondingly higher cost. In contrast, under a short-run adaptive capacity (current cash equivalent) concept of capital and nominal dollar concept of capital maintenance, the refined oil would be measured at its current selling price of US$120 and the increase in its selling price would be recognised in the period result without adjustment for any change in the general purchasing power of the oil's current cash equivalent.

The for-profit entity example above is provided because the accounting literature on measurement tends to focus on for-profit entities. For not-for-profit entities, sales of goods would tend to represent a relatively minor activity. But for them, the issue would still remain that, if they measured assets (such as equipment or supplies for use in providing services) at current market buying prices, and those prices increased, should that increase be included in the period result?

Topical issues with answers dependent on the concept of capital and concept of capital maintenance

To illustrate the importance of concepts of capital and of capital maintenance to standard setting issues, some topical issues on which the AASB considers the answers depend on the concept of capital and concept of capital maintenance adopted are:

(a) the treatment of the entity's own credit risk (see comments in Appendix A on Specific Matter for Comment 4);

(b) whether an asset's service potential should reflect the asset's existing use regardless of whether it is the asset's highest and best use (see comments in Appendix A on Specific Matter for Comment 5); and

(c) the measurement basis for provisions. IASB ED/2010/1 *Measurement of Liabilities in IAS 37* proposed that, in some circumstances, liabilities within the scope of IAS 37 should be measured at their fulfilment cost, but proposed that such a cost should include a margin on the entity's own costs. Such an approach would mix different concepts of capital, because fulfilment cost is an entity-specific measure and a profit margin on costs reflects how other market participants might price the obligation.

APPENDIX C

Other AASB Comments on the CP

Executive summary

Page & (Para.)	Comment
8 (7)	The description of replacement cost should point out explicitly that replacement cost is a form of market value, as it is determined from prices in market exchanges (for inputs, from the reporting entity's perspective). This would be consistent with the comment in paragraph 5.20 that replacement cost refers implicitly to transactions in a market setting.

Other

Para.	Comment
1.2	This paragraph says it is desirable for the measurement bases used in financial statements to be consistent with those used for statistical purposes. The AASB considers this is too strong a position. The AASB thinks statistical principles should be a consideration in developing Conceptual Framework principles, without the IPSASB identifying consistency with statistical principles as a desired objective. In this regard, the AASB observes that the IPSASB's *Process for Reviewing and Modifying IASB Documents* only treats consistency with statistical bases as a 'consideration' in determining whether public sector issues warrant a departure from an IASB document (in Step 1).
1.8	Although this paragraph mentions 'concept of capital' and contrasts that concept with the concept of capital maintenance, it does not describe what a concept of capital is. The AASB strongly recommends including such a description.

Para.	Comment
1.9	The AASB found the discussion in footnote 8 of a "real terms" concept of capital maintenance to be confusing. This is because: • the fifth sentence notes that a capital maintenance adjustment that allows for the effect of general price increases "allows shareholders to compare the growth in the business with the change in wealth necessary to maintain their consumption". In this context, 'consumption' is by shareholders, not the entity; and • the sixth (final) sentence says that, in a public sector context, a real terms system permits an evaluation of whether the financial result is such that, if the demands on resource providers are unchanged in real terms, the financial result would be sufficient to maintain an entity's current pattern of consumption of resources. Unlike the fifth sentence of footnote 8, this sentence refers to the entity's consumption. That is, it is confusing that, in the last two sentences of footnote 8, the consumption may either be that of shareholders or that of the reporting entity. In addition, the reference to the shareholders' consumption in the fifth sentence is confusing, because it is not apparent why one would account for effects of economic phenomena on shareholders rather than on the entity.
1.12	The fourth sentence says all bases considered in the deprival value model are entity-specific values. The AASB finds this 'entity-specific' label unconvincing. Replacement cost is determined on the basis of a market transaction. Net selling price is unambiguously a market-based value rather than an entity-specific value.
1.17	The logical implication of the second sentence is that historical costs cannot be representationally faithful if they differ materially from current (or 'full') value. The AASB disagrees with that implication, because faithful representation occurs when financial information faithfully represents what it purports to represent (IPSASB Conceptual Framework Exposure Draft 1, paragraph 3.10). As the IASB's revised Conceptual Framework (2010) says, a representation may be faithful without the information being relevant (paragraph QC16).
2.10	This paragraph could be misread as saying historical cost and budgeting go together. However, when budgeting, it would be strange not to estimate *future* salary and wage rises for a period and the expected *future* cost of major assets to be acquired. Therefore, the AASB disagrees with implying historical cost is more suited to budgetary comparisons than other measurement bases. One should budget future costs and compare them with future actual costs (which by then are historical costs), with price variance analysis of the differences. One should do that regardless of whether historical cost or any current value-based measurement model is adopted for financial reporting purposes. And it would not matter how much estimating is needed – as budgeting is focused on the planned use of available resources.

Para.	Comment
2.12	This paragraph does not really explain why the historical cost basis reflects a financial concept of capital. It explains a limited notion of capital maintenance. The AASB suggests a fuller explanation.
3.14	This paragraph on liabilities and market values seems an inadequate treatment of the issue. Restrictions on the transfer of liabilities occur particularly with some classes of liabilities, but are not a factor for other liabilities.
5.3	The first sentence (which says the deprival value model chooses between measurement bases solely on grounds of relevance) seems to be a mere assertion. The AASB suggests explaining the reasons for that claim.
5.5 5.16	It is unclear why this paragraph seems to say that recoverable amount is, from a deprival value perspective, the "lowest relevant measure of an asset" and that, upon deprival of an asset, the entity would lose at least the asset's recoverable amount. This apparent message seems inconsistent with the principle that recoverable amount is the maximum amount at which an asset's deprival value could be measured, as reflected in Figure 1 under paragraph 5.17. The AASB suggests clarifying the point being made here. The AASB has a similar concern with the second sentence of paragraph 5.16, which says deprival value cannot be lower than recoverable amount. This statement causes concern because it erroneously implies deprival value could exceed recoverable amount. As Figure 1 indicates, deprival value is the *lower* of replacement cost and recoverable amount.
5.7	This paragraph seems to say that, when net selling price is the appropriate measure of recoverable amount, "the value of the remaining in-use service potential is nil". However, whilst (as the paragraph indicates) value in use includes the disposal value at the end of the asset's useful life, when net selling price exceeds value in use, this does not necessarily mean the value of remaining service potential is nil. The value in use might include a much lesser net selling price (as the terminal cash flow) than the current net selling price with which value in use is compared, in which case value in use includes service potential in use. When net selling price exceeds value in use, the entire amount of value in use (including ultimate net selling price) is not part of the measurement of the asset's deprival value. The AASB thinks it would be clearer to just make this point.

Para.	Comment
5.9	The second sentence says one way of measuring value in use is as the amount of future cash outflows avoided by continued use of the asset. The AASB questions this notion of value in use because an asset's replacement cost represents the cash outflows avoided by already possessing an asset. If an asset's replacement cost were compared with its recoverable amount measured at value in use determined in this manner (for example, where its net selling price is negligible), the recoverable amount test could effectively be set aside. That is because the asset's value in use could be measured at the same amount as its replacement cost.
5.11	In relation to so-called 'non-cash-generating assets', such as those deployed in providing subsidised or uncharged services, the AASB recommends noting another viewpoint in this paragraph. That viewpoint is that the assessment of value in use should be performed at a very high level of aggregation (in some cases, at an entity level) if part or all of the cash inflows generated by the assets are appropriations or other transfers from government. It would not be representationally faithful to exclude such transfers from calculations of value in use when those transfers are made for the express objective of funding the provision of services. Identifying cash-generating units at a high level would not be unique to the public sector: it is sometimes necessary and appropriate for complex vertically-integrated private sector businesses.
5.16 – 5.21	Defining an entity's capital as its operating capacity[6] (or operating capability) should lead to the selection of current cost rather than current replacement cost, *per se*. This is because the measurement attribute should represent the most economical way in which the asset's service potential can be replaced, either by replacement with a modern equivalent asset (replacement cost) or by reproduction (reproduction cost). In other words, current cost is the more economical of replacement cost and reproduction cost of the asset's remaining service potential.
5.41	The comment in the third sentence appears to be an unsubstantiated assertion. The AASB suggests reviewing it.

[6] This term is used in paragraph 5.21.

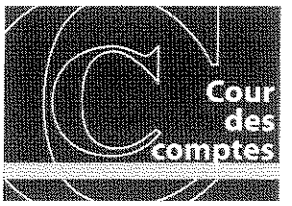
Para.	Comment
5.45	Without expressing a conclusion on how liabilities should be measured, the AASB has the following concerns with the arguments presented for measuring a liability at assumption price: • The last sentence seems to say an assumption price provides a representationally faithful measure of the entity's obligation to its creditor, but that begs the question of "what is the attribute of the obligation to be measured?" This question can only be answered fundamentally by reference to a concept of capital. • Also in relation to the last sentence, choosing a measurement basis to reflect "the entity's accountability to its customer for the amount that has been paid" implies measuring the liability at historical transaction price. This objective would seem to preclude remeasuring the liability if the contract becomes 'onerous'. It also would preclude measuring the obligation at a *current* assumption price when prices change, i.e., the price the entity would charge a customer to take on its remaining obligations at any point in time. • The logical extension of the second sentence of paragraph 5.45 is that the obligation should be measured at a probability-weighted estimate of the cost of performing and of the cost of compensating the customer if the entity fails to perform. However, measuring the liability at its historical assumption price effectively focuses only on the refund amount. Focusing only on the refund amount (adjusted when additional compensation would be payable for non-performance) is not helpful when measuring partly-performed contracts: see the bullet point below. • An historical assumption price would not cater for partial performance of a contract in some instances. If a contract is partly performed but not to the extent that the refund amount is less than the transaction price (for example, because the customer would also be compensated for the cost of finding an alternative supplier), the liability would not be remeasured despite the part-performance of the obligation. In addition, some advocates of using an assumption price to measure liabilities would focus on the current price at which the reporting entity would be willing to assume its remaining performance obligations to the customer. Under that approach, if the reporting entity has incurred significant costs in obtaining the customer's entry into the contract (including, for example, providing staff assistance in choosing between a range of available products), the current assumption price might be less than the transaction price (historical assumption price). That is, act of making the sale could be regarded, effectively, as partial performance under the contract (on the argument that selling services do not need to be explicitly identified in a contract since they are performed by the time the customer enters the contract). These concerns do not mean the AASB disagrees with measuring liabilities at a current assumption price, but, rather, that it does not find the arguments in paragraph 5.45 convincing.

Para.	Comment
5.47	This paragraph refers to "serious practical problems in reflecting changes in prices in obligations that are stated at assumption price", without explaining what those problems are. The AASB suggests adding such an explanation.
A3	In relation to the third bullet point, the AASB agrees that the cost of fulfilment should be a present value when fulfilment takes an extended period to complete. However, it is not apparent why using a present value necessarily entails incorporating the entity's own credit risk when measuring fulfilment cost. An entity's own credit risk seems unrelated to the value of the entity's resources required to fulfil its obligation. This view of the AASB is consistent with the comment in paragraph 5.37 that "It is questionable whether the cost of fulfillment should reflect the possibility that the entity may default on a liability." In relation to the fourth bullet point, the AASB thinks an assumption price for a liability would sometimes take into account the entity's own credit risk, but this would depend on the circumstances. The price the entity would seek to obtain as compensation for assuming the obligation should reflect the estimated value of the resources needed to fulfil the obligation and a margin for bearing the uncertainty associated with the amount of those resources. Neither of these factors is affected by the entity's own credit risk. However, if the customer were to pay consideration in advance of the entity's performance, the arm's-length price that the reporting entity obtains as consideration for assuming the obligation should be reduced for the effects of the entity's own credit risk. This would always be the case with a loan, where the entity's 'performance' would be making the loan payments. But, where consideration is not paid in advance of the reporting entity's performance, it is not apparent why the entity's own credit risk should affect the assumption price. The fourth bullet point also mentions the cost of release from a liability (which, as paragraph 5.23 says, relates to release either by the entity's creditor [at a cancellation price] or through transferring the liability to a third party). In this regard: • An entity's own credit risk would probably be reflected in the cancellation price of an obligation. If the entity's creditor agrees to cancel the obligation, it would weigh up the risk of non-payment by the entity against the loss sustained by cancelling the obligation for less than its face value. • It would seem that the entity's own credit risk should not be taken into account in a transfer to a third party, as the transferee would not reward the entity for any inferior credit standing. Unlike with fair value (based on a *hypothetical* transfer to an entity of equivalent credit standing), the focus of measuring the transfer price (an actual exit price) is not on the value of the entity's liability equalling the value of the counterparty's asset. That is, to determine the price to transfer an obligation to a third

	party, whether a credit enhancement necessarily occurs in a transfer would be a non-issue.[7] A regulator (such as a financial services regulator) may require that transactions to transfer a particular liability can only take place with entities of equivalent or higher credit standing, which in turn would affect the particular liability's actual exit price. Accordingly, the exit price for a liability should take into account any restrictions on who may participate in the market for the liability. Based on these views, the AASB suggests that the treatment of an entity's own credit risk when determining the 'cost of release' from a liability would depend on the mode of release being considered.
B3 – B4	The discussion of sale prices for an alternative use in paragraphs B3 and B4 implies a higher 'reliability' threshold than is required for other measurement attributes, and scepticism about the reliability of such prices. That apparent scepticism could be construed in respect of using market prices in any context, and thus be an inappropriate source of support for historical cost. The AASB suggests a more neutral discussion of the need to obtain adequate market evidence of a sale price for an alternative use.
B4	The reference to reflecting an alternative use value possibly only "where the entity is planning disposal of the asset" makes entity intentions a determinant of the measurement. However, paragraph 5.20 of the CP stresses that deprival value[8] is not dependent on management intentions. The AASB thinks entity intentions should not of themselves be a determinant of how assets are measured, and suggests amending paragraph B4 for consistency with that principle.

[7] The Basis for Conclusions on IFRS 13 *Fair Value Measurement* says "In a fair value measurement, the non-performance risk related to a liability is the same before and after its transfer. Although the IASB acknowledges that such an assumption is unlikely to be realistic for an actual transaction (because in most cases the reporting entity transferor and the market participant transferee are unlikely to have the same credit standing), the IASB concluded that such an assumption was necessary when measuring fair value for the following reasons: … (c) Those who might hold the entity's obligation as assets would consider the effect of the entity's credit risk and other risk factors when pricing those assets." (paragraph BC94)

[8] Appendix B to the CP is concerned with the measurement of replacement cost, which is also an important component of deprival value.



Advisory Committee for the Standardisation of Public Accounts

The Chairman

Paris, le 15 june 2011

Purpose: response from the French Court of Auditors to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.

The present document is the response from the French Court of Auditors and all French jurisdictions to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.

Composed of members of the Court of Auditors and of regional and local chambers of auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts is drafting the opinions of the latter over questions of accounting standardisation relative to three areas of public sector administration (the State, Regional and Local Government, and Social Security). The committee is preparing the positions that will be held by the representatives of financial jurisdictions on the various standardisation boards.

Financial jurisdictions have read with great interest the consultation documents proposed by the IPSAS Board, which raise key questions over the goals and content of financial statements from public-sector bodies.

As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation.

Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency

between variations in the amount of rights and obligations and the expenses and income given in the income statement.

The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model.

Christian BABUSIAUX

Response to the exposure draft from the IPSAS Board

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity"
(Phase I)

I. *"Role, Authority and Scope of the Conceptual Framework"*

I.A *"Authority of the Conceptual Framework"* (par. 1.2 & BC1.1 to BC 1.3)

The understanding is that the authority of the conceptual framework is no greater than that of IPSAS standards, but is seen on the one hand as an aid to draft these standards, and on the other as a guide for persons preparing accounts when no specific standard is available for treating a particular item as and when financial statements are drawn up. Additionally, a review of existing standards will be made after the adoption of the present framework to eliminate potential sticking points.

In principle, the French Court of Auditors has no objection but would like to recall its stance on the previous project (see letter of 31 March, 2009). Taking as an example the conceptual framework of accounting standards for the French State (if, exceptionally, the application of a rule proves improper and does not give a true image, exemption shall be made to the rule and the said exemption must be mentioned and explained in the appendix along with its effect on accounts), the Court felt that general principles should be placed above standards and that this should be clearly stated in the conceptual framework. The Court stands by this position.

I.B *"Scope of Financial Reporting"* (par.1.5 to 1.7 and BC 1.5 to 1.9)

The scope of the project is to consider that the framework of *"General Purpose Financial Reporting by Public Sectors Entities"(GPFR)* should be broader than financial statements in the strict sense of the term (including appendix notes), even though the said statements will always be the core of financial information. According to the draft, they may comprise information about the past, present and future, deemed to be useful for users and including information that is financial or non-financial, quantitative or qualitative, etc.

Concerning this, in principle, broad perimeter, the French Court of Auditors has no objection in essence, as it willingly agrees that financial information clearly extends beyond accounting statements, a stance supported by the situation in France today (budget execution, performance reports, forward stability programme in the frame of the EU…).

Nevertheless, it feels that any new move forward by the IPSAS Board in this field cannot be placed on the same level as accounting standards. In this respect, it seeks elucidation as to paragraph 1.7, second sentence and BC.1.8: it must be stated clearly that sections 2 and 3 of the conceptual framework (*definition, recognition and measurement*) and in the future section 4 covering the presentation of reporting statements, are relevant only for the drawing up of

standards governing actual financial statements, and that the drafting of new ways forward for the rest (e.g.: sustainability reports) will come under a different rationale. The last sentence of paragraph 3.5 mentioned further on must be clarified in this respect.

I.C *"Applicability of the Conceptual Framework" (§ 1.8 and BC 1.10)*

The proposed wide field poses no problem to the French Court of Auditors: it relates to public sector entities, excluding public-area companies in the competitive sector (GBEs). It should be specified that in France, the basic social security systems (in the sense of community legislation) come under the public sector: even if run by entities with a different status, they are governed by the annual vote for the law financing social security.

No conclusions should be drawn from this paragraph concerning the drawing up of consolidated accounts (see further on).

II. *"Objectives of Financial reporting and Users of General Purpose Financial Reports"*

II.A *"Users of General Purpose Financial Reports"* (§ 2.4, 2.5, BC 2.4, BC 2.7)

The understanding is that, for the IPSAS Board, the prime users of financial information are the beneficiaries of services and the bringers of resources and their representatives that may be Parliaments or deliberating assemblies (2.4 and BC 2.4). If citizens are recognised as prime users of financial statements, it is because they are suppliers of resources and beneficiaries of services (2.5), but there are others.

This approach is acceptable only with several reservations:

- the conceptual framework cannot ignore reality: in a democratic State, where governing officials are required to report to citizens or to their representatives, national rules (or rules of the European Union) always comprise obligations in this respect for different public entities, even though they may take different forms: consequently, the first sentence of § 2.4, *"...who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes"* makes no sense. Financial information for general purposes may of course by complemented for more specific needs (2.6) but it is not a category in its own right. As a general rule, it will be included in documents due to the representatives of tax-paying citizens/beneficiaries of services (State, local government) or to representatives of public contributors (public establishments, social security organisations);

- it is therefore a moot point – putting it mildly – to imply that parliaments (or other deliberating assemblies) should have special needs for financial information that might lead to their requesting special statements (BC2.8). When you opt for an approach to GPFR as broad as the present draft exposure, you cannot then leave people thinking that it might, by nature, be inadequate;

- the bottom line is that under these conditions, GPFR must be for both citizen/tax-payers/service beneficiaries and their legitimate representatives, giving information that may be diverse in nature but always consistent in itself. In this respect, we may consider that actual financial statements, prepared according to observed lawful accounting principles (and subjected to an obligation of certification by the competent national institution) may or should be complemented by receipt/expense budget execution statements, giving simple information about the year's budget balance, by performance reports or the equivalent thereof of more specific interest to such and such a category of citizen, and even by documents of sustainability. These statements must be usable by other persons, such as lenders, for example, and also by public contributors when dealing with statements from public organisations of all types. Lastly, they must be consistent with the State's national accounts;

- this principle of general consistency should be clearly asserted under 2.4 and BC 2.4 and in the conclusion after 2.13. It implies very exacting standards regarding actual financial statements and all supplemental documents.

II.B *"Information Provided by General Purpose Financial Reports"*

For paragraphs 2.19 and 2.20 (information re budget execution), 2.21 (*service delivery achievements*) 2.22 and 2.23 (prospective information), the Court of Auditors refers back to what was said under I.B and also to the above paragraph and the principle of consistency.

Additionally and regarding more particularly sustainability (2.23), it also refers back to its reply of 26 April, 2010, to the consultation document from the IPSAS Board relative to information about the long-term financial sustainability of public finances. The Court emphasised that several conceptions might exist on this topic and suggested using the terms "items of sustainability", placed either in the notes to accounts or in an ad hoc report kept separate from actual financial statements, or, if relevant or if it exists, in the executive management report.

III. *"Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports"*

III-A Qualitative characteristics

Paragraph 3.2 gives the list of qualitative characteristics of information included in GPRF: relevance, faithful representation, understandability, timeliness, comparability and verifiability. The understanding is that all these qualities are to be placed on the same level, that they inter-combine and complement each other with no scale of priority (3.4 and 3.40 and 3.41; BC 3.29) and that they are designed to cover all forms of financial reporting (3.5).

Firstly, this calls for two general comments:

- even though they interlap, these qualities are different to those attributed to financial statements in the strict sense of the terms by the standard IPSAS 1 (appendix), which are "understandability", "relevance", "reliability" (a quality that includes "faithful

representation", "substance over form", "neutrality", "caution", "completeness") and comparability (see further on). The opinion of the Court of Auditors is that the qualitative characteristics proposed in the conceptual framework must not lead to any degradation of the exacting standard of those listed under IPSAS 1;

- secondly, the qualitative characteristics of the draft conceptual framework, when examining their definition given in the following paragraphs, appear in reality to have full scope only when tying in with other forms of GPFR, aside from financial statements in the strict sense of the term. But, in this respect, 3.5 suggests future developments to specify or to interpret these qualitative characteristics on the occasion of the creation of standards or ways forwards for the said other forms of GPFR. This is not entirely satisfactory and undermines the thoroughness of the present draft.

Some of these qualitative characteristics call for a number of observations:

- relevance (3.6 & BC 3.5):

In substance, the definition overlaps with that of IPSAS 1 and poses no problem, but the first sentence of the two cited paragraphs is not easily understandable.

- faithful representation (3.10 to 3.16 and BC 3.8 to BC 3.17) :

This supposes, in particular, exhaustiveness (BC 3.9), neutrality and absence of significant error (3.14, 3.16 and BC 3.9), but the draft turns these into relative concepts owing to the broad nature of the items of financial reporting it focuses upon (most notably prospective information). This must not lead to any undermining of the exacting requirements made upon financial statements in the strict sense of the term (see above).

Regarding the link with the term "reliability" employed by IPSAS 1 (BC 3.10 to BC 3.13), the framework draft considers that the term faithful representation poses fewer problems of interpretation and is broader to designate a globally faithful image of the economic phenomena we wish to depict. The Court of Auditors regrets the replacement of the more thorough conception used in IPSAS 1.

Furthermore, and still with this same characteristic, the question is raised over the attributes of substance superior to form and of caution (BC 3.14 to BC 3.17). It is explained (3.15) that substance superior to form is a component of faithful representation. For caution, the draft says that this is an attribute of neutrality (3.17), itself included under faithful representation. In this respect, the Court of Auditors reiterates its robust attachment to the principle of caution, which figures hardly at all in the body of the draft (only 3.14 states that "caution will need to be exercised when dealing with uncertainty") as a component of faithful representation. However, this principle is key when looking to evaluate the liabilities and assets of a public entity, all the more so when examining sustainability.

In keeping with the preferred option of a "balance-sheet" model or, at the very least, a "mixed model" making it possible to retrace rights and obligation over and above flows (cf. introduction and the response from the Court of Auditors to the IPSAS N°2 consultation document for the conceptual framework), it would appear essential to retain the principle of

caution. Paragraph 3.15 should be reinforced in this respect, and the same should apply to 3.16 on the question of estimations.

- understandability (3.17 & 3.18 and BC 3.18 to 3.20): no problem in principle
- timeliness (3.19 & 3.20 and BC 3.18 to BC 3.20): ditto
- comparability (3.21 to 3.25 and BC 3. 23 and 3.24): ditto
- credibility or verifiability (3.26 to 3.31 and BC 3.25 to 3.27):

The Court of Auditors observes that the draft is very hard pushed to define this characteristic (which is confused with "supportability") as acknowledged under BC 3.26. In fact, the understanding is that this is operative only for financial information other than financial statements in the strict sense of the term (3.26 and 3.31). It should be necessary to clarify the exact scope of this characteristic, the appeal of which lies only with non-accounting information.

III-B "*Constraints on Information Included in General Purpose Financial Reports*"

The Court of Auditors has no observation to make as to the two constraints recognised in the production of financial information, namely significativity and cost-to-profit ratio (3.32 to 3.39 and BC 3.30 to 3.37).

IV. "*The Reporting Entity and Group Reporting Entity*"

The general definition (§4.1) of the public entity obligated to GPRF, or of the group of entities, raises no problem. The understanding is that to ascertain the basic entity obliged to present financial reporting, we refer to the requirements of national legislation (4.5, 4.6 & BC 4.2).

It is however regrettable that the draft does not envision more clearly than it currently does the necessity of there existing at least one financial report for a State (distinguishing between Federal State and federated states, if necessary) considered in its entirety, over and above financial reporting that might be made by ministries or agencies. This can be an intermediary stage before the production of consolidated financial statements over a wider scope. It is a condition for comparability for national States.

Concerning the "Group Reporting Entity", the draft envisages different forms of control for entities to be consolidated or combined into a whole (4.8, 4.11 and 4.12). But BC 4.11 is clearer by referring, for a government for example, to all entities "*whose activities it can direct for its benefits, including those which expose it to a financial burden or loss*". This definition is more ambitious than that of control given by the present IPSAS 6 and seems more closely linked to the notion of advantages and risks than to the current definition of control (cf. on this point the response from the Court of Auditors to consultation document N°2).

The Court of Auditors understands that to take this further, IPSAS standards will need to meet the problems of implementation raised in this area by the differences in legislation from one country to the next (4.13). This means that the conceptual framework does not judge the tricky issues of perimeter (BC 4.17) and technique (consolidation or combination, BC 4.18) and thus relates back to standards to be defined or reviewed on this point.

The Court of Auditors considers this approach to be one of caution at the present stage but will be vigilant at the standard-setting stage to ensure that the specifics of national legislations are recognized (BC 4.19 to 4.21). Here, the Court of Auditors wish to dwell on the importance of national legislation, in democratic States, endeavouring to define the relevant level for the production of financial statements, done so according to the needs of users represented by national parliaments. The adopted approach will need to be pragmatic and reasonable.

Finally, in this particular area we cannot ignore the requirements of the EU for EURO zone States, which for the production of their stability programme, practice a form of data consolidation for national accounts.

Response to the exposure draft from the IPSAS Board

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements"
(Phase II)

Introduction

This consultation document from the IPSAS Board is strategic in that it concerns a conceptual discussion of the fundamental contents of financial statements from a public entity.

There are two directly opposed cardinal models on this subject:

- a so-called "flow" model in which fiscal year expenses and income and the "financial performance"[1] of a public entity are measured, essentially based on flows of cash without however these flows being totally blended;
- a so-called "resources and obligations" model where the fiscal year expenses and income are charged more directly against variations in assets and liabilities.

This fundamental discussion is picked up on under point 11 of the IPSAS Board document. Nevertheless, it is proposed to address this question in the introduction to the draft response and to then complete the text with short answers to the 19 questions posed in the IPSAS consultation document.

Flow Model and the Resources & Obligations Model

The public sector entities likely to apply IPSAS and the conceptual framework thereof currently being drawn up belong to the public administration sector in the sense of national accounting:

- Central government;
- Regional and local government;
- Social security.

Presentation of the current context in France: accounting systems for Central Government, Social Security and Regional and Local Government

In France, general accounting for Central Government is, through the organic law relative to the Bill of Finance, separate from budgetary accounting: general accounting must be kept according to the rules that apply to business firms, subject to the specific features of the State; budgetary accounting is kept according to the principle of cash office for receipts and according to the principles of engagement and cash office for expenditures.

[1] Under IPSAS standards, the income statement is referred to as "statement of financial performance" and is presented like the income statement for a business firm (income – expenses = profit), as opposed to the table for ascertaining the fiscal year balance for the French State, resulting from the difference between net regal income and net expenses. In this respect, the "French-style" income statement is very similar to that of the US Federal Government.

Expenses are not directly connectable to income, and likewise expenditures are not connectable to receipts. The rules applicable to operators (agencies) controlled by the State are different and the ongoing issue is to harmonise these rules with State rules.

Concerning Social Security, the context is different. Budgetary accounting does not exist and accounts are kept according to observed rights within the limit of the distribution model. The general principle is effectively one of connection of allowances and sums due for a given year with allocated contributions and taxes expected for that same year. Imbalances between expenses and income produce a financial debt, borne by an ad hoc structure on the occasion of transfers operated by law.

Contrary to the system practiced by the State, items of long-term visibility regarding Social Security (retirement commitments with citizen contributors, for example) are not accounted for in the balance sheet. Neither do they figure in the notes. They are partly presented in other documents that are separate from accounts. One of the major issues in France today is to have these items figuring in the notes to the accounts of the Social Security system. In any case, the rationale is different to that seen in models used by insurers.

Lastly, regional and local governments are administered with a "budget-accounting" system that comprises a presentation of accounts in two sections, operations and investment. Certain calculated expenses (allowances for depreciation or certain allowances for provisions, for example) are neutralised. The balance sheet is of limited significance and notes to financial statements are very sketchy. From this viewpoint, the general accounts of regional and local government offices are subjected to budgetary constraints.

The conceptual framework applicable to public-sector entities must take on board all encountered specifics and not be frozen on one extreme model rather than another. It must be able to evolve in different contexts, identify the decisive factors of applicable rules, and the principles of organisation and their convergence.

A issue to be taken into account: transparency of information

Amongst other effects, the recent financial crisis fuelled the growth of the public debt in a good number of countries.

As countries are increasingly turning directly to the financial markets to finance their spending, by-passing intermediaries in the process, the transparency of their long term costs and commitments has become a crucial factor. Investors are reasoning more and more in terms of stocks, less and less in flows, as seen with the recent examples of certain countries from the euro zone and their financing difficulties, due in part to serious questions hanging over the sustainability of their public finances.

The drawbacks of an approach based on a single model

While the flow model is confined to information given as to incoming and outgoing cash for the fiscal year, and to the due and payable, with possibly information as to long-term commitments and/or non financial performance (income indicators), we may feel that it delivers data that, *on the face of it*, is more limited than the resources and obligations model, based on notions of assets and liabilities, as currently defined by IPSAS and IFRS standards.

From this, the flow model may be considered as being insufficient to report, on its own, the faithful representation of an entity's financial situation, whether public or private.

The resources and obligations model (balance sheet) gives information as to the entity's real patrimonial situation via both the balance sheet and notes thereto, and the income statement. The necessary supplemental data is provided in documents relative to sustainability. In a very extensive version, the understandability of accounts stemming from this model may be affected.

We might, in theory, conceive of a "dual" model, in which expenses and income reported in the income statement would be close to the cash office, with a balance sheet and note retracing rights and obligations in a more extended way. However, articulation between the two documents would not be easy and, importantly, not immediately understandable by a section of readers who are now accustomed to the IFRS and IPSAS model of resources and obligations.

Rather than opposition between two "pure" models, which in certain respects appears sterile, the principle of consistency must prevail: flows and patrimony are two important aspects of financial information from public entities, as is sustainability. A "mixed" model reconciling all these requirements, must be sought. The keystone of this lies with the presentation, in the balance sheet, of all rights and obligations, over and above their sole annual variation, and solid consistency between variations in the amount of these rights and obligations and expenses and income in the income statement.

All of the replies from the Court of Auditors to the three consultation documents from the IPSAS Board are compatible with such a "mixed" model.

Specific Matter for Comment 1

(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:
(i) Service potential;
(ii) Net cash inflows; and
(iii) Unconditional rights to receive resources?

(b) What term should be used in the definition of an asset:
(i) Economic benefits and service potential; or
(ii) Economic benefits?

Answer to items (a) and (b):
Considering the specificity of each public entity and their evolution in both a business and a non-business environment, the description of assets must take into account the different forms of economic benefits, including benefits in the form of service potential.

From the outset, the notion of unconditional rights to receive resources makes it possible to account for certain assets specific to Governments, such as assets pertaining to sovereignty (namely the right to collect taxes, intangible assets deriving from granted concessions…), but these "theoretical" assets cannot be recorded in the accounts as long as their measurement remains inaccurate. In most countries, this leads to a recognition of tax claims to be recovered

over one and the same fiscal year, which situation is consonant with the fact that, every year, Parliament votes an authorisation to collect taxes with projections of the amounts covered by this authorisation.

Equally cf. answer to Question No. 4.

Specific Matter for Comment 2
(a) Which approach do you believe should be used to associate an asset with a specific entity:
(i) Control;
(ii) Risks and rewards; or
(iii) Access to rights, including the right to restrict or deny others' access to rights?
(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?
(c) Are there additional requirements necessary to establish a link between the entity and an asset?

Answer:

The right to deny access to a third party may be exercised effectively, where it is considered independently, in recognising massive volumes of assets, given that public entities legislate and adopt regulatory instruments to regulate a large number of sectors.

The term "control" presently used in the "IPSAS" standards may be misleading, given that different definitions are provided for both tangible and intangible assets, on the one hand, and stock holdings (specific description of control of an entity by another), on the other hand.

The notion of control makes it possible to address situations specific to public entities (concessions, for instance), but the notion of risks and advantages seems more generic and encompassing for categories of assets.

More particularly, the notion of risk is very appropriate when talking about the fact that a public entity cannot directly benefit from the economic advantages of an asset, or even benefit partially from it, whereas it actually bears the (financial) risks related thereto. A perfect illustration is provided by the "collective assets", that are managed by public entities for the benefit of the community and not for their own benefit, such as non-conceded roads, court houses, prisons, police stations, and even military assets, that do not generate (barring exceptions) any economic advantages, and whose service potential is not directed specifically to the entity, but rather to the citizens, to households, businesses and other public or private organisations. From a certain standpoint, it is not (or not only) the public entity that *benefits* from the service potential of these assets, even though it is the guarantor (custodian).

Therefore, the two approaches are complementary.

Specific Matter for Comment 3
Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

Answer:
The notion of "present resource" is fundamentally linked to the existence of a past event, irrespective of the nature thereof. As a result, mentioning the need to identify a past event leading to the existence of an asset seems unnecessary, but the symmetry with the definition chosen for liabilities should result in this definition being retained for the two items (assets and liabilities).

Specific Matter for Comment 4
Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

Answer:
The power to levy taxes or to award operating permits of public property (radio frequency spectrum, for instance) are inherent rights of public sector entities. They generate resources and therefore meet the most generic definition of assets. The fact that the measurement of these assets is very often only possible at the time of exercising these rights should not lead to them being excluded in principle from the scope of assets. Generally, these rights are exercised pursuant to a specific legal instrument (such as the annual finance law that authorises the Government to levy taxes for one fiscal year only), but the rights thus generated may extend beyond the current fiscal year.

According to a possible approach, these assets should only be recognised at the time when the entities concerned are exercising the rights, and not from the outset simply by virtue of their existence. Whatever the case, however, there is need to ascertain the reliability of assessments of the amounts considered.

Specific Matter for Comment 5
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

Answer:
No.

Specific Matter for Comment 6
(a) Should the definition of a liability cover all of the following types of obligations?
(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
(iii) Performance obligations.
(iv) Obligations to provide access to or forego future resources.
(b) Is the requirement for a settlement date an essential characteristic of a liability?

Answer:

(a) In view of what has been mentioned in the introduction (preference for a mixed model), a highly restrictive definition of liabilities does not seem suitable for public sector entities, except for those that operate specifically based on the categorisation model.
Obligations to transfer assets (monetary or not), to deliver goods and services in future, unconditional obligations, performance obligations and obligations to grant access to future resources should not be excluded, initially, from the definition of liabilities, subject to them falling under legally established obligations, which is not always the case for obligations to deliver services in future.
Furthermore, the obligation needs to emanate from a likely or unquestionable generation of resources, and the measurement of the said obligation must be reliable. With regard to performance obligations, the resource generation may not systematically emanate from a disbursement, but rather from the provision of resources to a third party.
By the term legal obligation, the Court of Auditors refers to an obligation defined in a legislative, regulatory or contractual instrument, or even by agreement, with a third party clearly identified as the "beneficiary" of the said obligation.
(b) Specification of the due date is not an essential characteristic for liabilities (case of risk provisions, for instance, for which the due date is not systematically stated).

Specific Matter for Comment 7:
(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?
(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?
(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

Answer:
(a) Yes, the identification of a third party is fundamental in the recognition of a liability. However, this should not hinder a statistical measurement for some categories of liabilities (provisions, for instance), even where the third party is known.
(b) No, given that this may lead to the recognition of liabilities for which the legal obligation is not clearly established (for instance, recognition of all future expenses in the form of liabilities).
(c) Cf. answer to Question 10 hereinafter.

Specific Matter for Comment 8:
Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

Answer:
A past event must systematically be identified (or identifiable) for an obligation and, hence a liability, to be recognised.

Specific Matter for Comment 9:

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?
(b) Is the enforceability of an obligation an essential characteristic of a liability?
(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Answer:

(a) The legal character or an obligation must be a determining criterion, which implies that a case-by-case analysis should be carried out in situations where several requirements ought to be fulfilled for an obligation to give rise to a payment (case of social benefits). For instance, fulfilment of all requirements should not be a criterion for the recognition of a liability, given that statistical analyses based on background data can be used to adjust the amount of the liability in view of the probability of a resource generation.
(b) No. For instance, a claims provision ought to be recognised once a legal action is instituted against the entity, and prior to the pronouncement of the provisional or final decision by the court.
(c) Yes, liabilities ought to be recognised pursuant to the laws in force at the closing of the fiscal year.

Specific Matter for Comment 10:
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

Answer:
The legal character of an obligation is an essential factor.

Specific Matter for Comment 11:
(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?
(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Answer:
The answer to this key point is provided in the introduction. To the Court of Auditors, the revenues and expenses for the fiscal year are generated by fluctuations in the assets and liabilities of the entity. Even though all the asset and liability fluctuations do not systematically lead to the recognition of a revenue or an expense (for instance, a rise in an asset item measured at its market value should not invariably be translated into a revenue for the fiscal year), it seems inappropriate to reverse the line of conduct and make use of inflows and outflows for the fiscal year to draw up the balance sheet.

Specific Matter for Comment 12:
(a) Should transactions with residual/equity interests be excluded from revenues and expenses?
(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

Answer:

(a) This aspect mostly concerns the consolidated accounts rather than the individual accounts of the entity. For the State, one cannot clearly identify what can be considered as transactions generating revenues or expenses emanating from minority interests or residual equity items.
(b) To answer this question, there is need to specify what would be considered as "activities" that may not subsequently generate revenues and expenses.

Specific Matter for Comment 13:
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

Answer:

(a) No.
(b) No.

Specific Matter for Comment 14:
(a) Do deferrals need to be identified on the statement of financial position in some way?
(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
(i) Defined as separate elements;
(ii) Included as sub-components of assets and liabilities; or
(iii) Included as sub-components of net assets/net liabilities.
(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

Answer:

(a) Yes.
(b) These items ought to be considered as assets and liabilities following the preference for the balance sheet approach retained by the Court of Auditors.

Specific Matter for Comment 15:
(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?
(b) Should the concept of ownership interests, such as those that relate to minority or noncontrolling interests in a GBE, be incorporated in the element definition?

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

Answer:

(a) The answer will depend on the nature of the entity. For a centralised State, the difference between assets and liabilities will be a residual amount, considering the lack of recognition of sovereignty assets. For other public entities, it may refer to a proprietary interest.
(b) Yes, for the entities concerned.
(c) No.

Specific Matter for Comment 16:
(a) Should transactions with residual/equity interests be defined as separate elements?
(b) If defined as separate elements, what characteristics would you consider essential to their definition?

Answer:
This aspect does not seem to be clearly specified in the consultation paper. Where it refers to segregating the recognition of transactions provided by the shareholder Government, including to entities that do not have the status of a joint stock company (such as public institutions), it would definitely seem relevant to make provision for recognition in the form of capital investments.

Specific Matter for Comment 17:
(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgement whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?
(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Answer:

(a) The recognition of an asset and a liability should only be carried out where its measurement is reliable.

Specific Matter for Comment 18:
Do you support the use of the same criteria for derecognition as for initial recognition?

Answer:
Yes.

Specific Matter for Comment 19:
Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Answer:

The recognition criteria should be separated from item definitions, in a manner to make the standards much clearer.

Reply to IPSAS Board Exposure Draft

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements"
(Phase III)

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?

Answer:
The answer will be determined by the views one has of the financial statements of the public entity. In the Court's opinion, these financial statements must first and foremost provide a faithful account of the situation of its assets, including revenues and expenses generated by the fluctuation in assets and liabilities that account for the said situation.

Consequently, it considers that, within the conceptual framework, it would be appropriate to identify the salient factors in order to work out suitable methods to measure the different assets and liabilities of the public sector, rather than identifying a particular method for a specific category of assets or liabilities.

As a result, it reckons that the selection in principle of a single valuation method or a single valuation approach must be ruled out.

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.
(e) Historical 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.

Answer:

In keeping with the answer to Point No. 1, the Court feels there is a need for the conceptual framework to retain the most flexible combination of methods possible, combining historical cost, replacement cost and market value, to take into account the very broad diversity, and sometimes, the specificity, of the assets and liabilities to be measured in the public entities. This specificity may derive from the lack of acquisition cost, the absence of a market, the inherent nature of the asset or liability, or the indefinite character of the subsequent holding period of the asset or liability by the public entity. In the conceptual framework, the selection of any of the methods to measure any of the assets or liabilities will be determined by the salient factors identified in the introduction.

As it stands, the Court considers that within the conceptual framework, there is no need to formally establish a hierarchy amongst methods that address different problems. It reckons that, as concerns significant assets or liabilities, where there is a market value, but which market value it does not consider the most salient measurement method, provision should be made to present this as an appendix with a view to properly informing the reader of the financial statements. This applies especially to financial liabilities and expenses.

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).

Answer:
According to the Court, the respective strengths and weaknesses of the different asset and liability measurement methods are presented in a comprehensive, fair and balanced manner in the paper.

This notwithstanding, the Court equally points out, in view of the presentation of the deprival value approach, that the said approach is not too relevant to liabilities. It should therefore be discarded as a single and holistic approach within the conceptual framework.

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?

Answer:

a) The Court reckons that the own credit risk should not be dissociated from the other measurement items in the initial recognition of a financial liability.

From the outset, the Court shares the view that an objective measurement of own credit risk would be difficult to carry out and would not meet the reliability criterion.

Secondly, a vast quantity of the financial liabilities of public entities, especially Governments, is made up of borrowings, for which the most relevant measurement basis is the amortised cost. Whereas this measurement method requires that the liabilities should be recorded at their fair value at the time of their initial recognition, which value represents the value of the consideration received and includes the effect of the entity's own credit risk. Consequently, the neutralisation of the latter item will be inconsistent with the measurement of the said liabilities at the fair value of the consideration received in their initial recognition.

b) The Court equally feels that a differentiation ought to be established between liabilities measured at the market value and liabilities measure using the other possible measurement bases, namely historical cost, cost of fulfilment, assumption price, cost of release.

For liabilities measured using a basis other than the market value, the Court considers that own credit risk fluctuations should not affect the financial statements. The main reason for this is the paradox that may arise from a consideration of these fluctuations and the interpretation difficulties that user of the financial statements may equally encounter. As recalled in the consultation paper (Appendix A § A6), a decline in the entity's credit risk would actually help it to post a profit where such an option is retained.

As concerns the liabilities measured at the market value, the Court considers that there is no need to recommend a "restatement" of the own credit risk fluctuation included in the market price. On the one hand, such a restatement will encounter the same difficulties mentioned above as concerns obtaining reliable and objective information. On the other hand, such a method would not help to measure the instruments concerned at their comprehensive market value when recognising them subsequently.

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?

Answer:
The conceptual framework should help to ensure the consistency of the normative system based on a simple idea: provide an account as faithful as possible of the situation of the public entity's assets at the closing of the accounts, i.e. when recording the rights and obligations generated over the fiscal year at their relevant value based on their use/consumption at that selfsame time.

In this regard, changing a measurement method based on a projected, expected or scheduled change in the use of an asset should be ruled out.

Where an initial decision is made, whereas the accounts are yet to be closed, to embark on the plan to transfer a significant asset, following a subsequent implementation timetable, it will be most appropriate to include as an appendix an assessment of the proceeds expected from the projected transfer.

Advisory Committee for the Standardisation of Public Accounts
The Chairman
Paris, Ie 15june 2011
Purpose: response from the French Court of Auditors to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.
The present document is the response from the French Court of Auditors and all French jurisdictions to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.
Composed of members of the Court of Auditors and of regional and local chambers of auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts is drafting the opinions of the latter over questions of accounting standardisation relative to three areas of public sector administration (the State, Regional and Local Goverument, and Social Security). The committee is preparing the positions that will be held by the representatives of financial jurisdictions on the various standardisation boards.
Financial jurisdictions have read with great interest the consultation documents proposed by the IPSAS Board, which raise key questions over the goals and content of financial statements from public-sector bodies.
As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation. Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency
I
between variations in the amount of rights and obligations and the expenses and income given in the income statement
The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model.
Christian **BABUSIAUX**

Reply to IPSAS Board Exposure Draft
"Conceptual Frameworkfor General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements"
(Phase III)

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?
Answer:
The answer will be determined by the views one has of the financial statements of the public entity. In the Court's opinion, these fmancial statements must first and foremost provide a

faithful account of the situation of its assets, including revenues and expenses generated by the fluctuation in assets and liabilities that account for the said situation.
Consequently, it considers that, within the conceptual framework, it would be appropriate to identify the salient factors in order to work out suitable methods to measure the different assets and liabilities of the public sector, rather than identifying a particular method for a specific category of assets or liabilities.
As a result, it reckons that the selection in principle of a single valuation method or a single valuation approach must be ruled out.
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.
(e) Historical 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.
Answer:
19
In keeping with the answer to Point No.1, the Court feels there is a need for the conceptual framework to retain the most flexible combination of methods possible, combining historical cost, replacement cost and market value, to take into account the very broad diversity, and sometimes, the specificity, of the assets and liabilities to be measured in the public entities. This specificity may derive from the lack of acquisition cost, the absence of a market, the inherent nature of the asset or liability, or the indefinite character of the subsequent holding period of the asset or liability by the public entity. In the conceptual framework, the selection of any of the methods to measure any of the assets or liabilities will be determined by the salient factors identified in the introduction.
As it stands, the Court considers that within the conceptual framework, there is no need to formally establish a hierarchy amongst methods that address different problems. It reckons that, as concerns significant assets or liabilities, where there is a market value, but which market value it does not consider the most salient measurement method, provision should be made to present this as an appendix with a view to properly informing the reader of the fmancial statements. This applies especially to financial liabilities and expenses.
Specific Matter (or 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).
Answer:
According to. the Court, the respective strengths and weaknesses of the different asset and liability measurement methods are presented in a comprehensive, fair and balanced manner in the paper.
This notwithstanding, the Court equally points out, in view of the presentation of the deprival value approach, that the said approach is not too relevant to liabilities. It should therefore be discarded as a single and holistic approach within the conceptual framework.
Specific Matter (or 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?
Answer:
a) The Court reckons that the own credit risk should not be dissociated from the other measurement items in the initial recognition of a financial liability.
20
From the outset, the Court shares the view that an objective measurement of own credit risk would be difficult to carry out and would not meet the reliability criterion. Secondly, a vast quantity of the financial liabilities of public entities, especially Governments, is made up of borrowings, for which the most relevant measurement basis is the amortised cost. Whereas this measurement method requires that the liabilities should be recorded at their fair value at the time of their initial recognition, which value represents the value of the consideration received and includes the effect of the entity's own credit risk. Consequently, the neutralisation of the latter item will be inconsistent with the measurement of the said liabilities at the fair value of the consideration received in their initial recognition.
b) The Court equally feels that a differentiation ought to be established between liabilities measured at the market value and liabilities measure using the other possible measurement bases, namely historical cost, cost of fulfilment, assumption price, cost of release.
For liabilities measured using a basis other than the market value, the Court considers . that own credit risk fluctuations should not affect the financial statements. The main reason for this is the paradox that may arise from a consideration of these fluctuations and the interpretation difficulties that user of the financial statements may equally encounter. As recalled in the consultation paper (Appendix A § A6), a decline in the entity's credit risk would actually help it to post a profit where such an option is retained.
As concerns the liabilities measured at the market value, the Court considers that there is no need to recommend a "restatement" of the own credit risk fluctuation included in the market price. On the one hand, such a restatement will encounter the same difficulties mentioned above as concerns obtaining reliable and objective information. On the other hand, such a method would not help to measure the instruments concerned at their comprehensive market value when recognising them subsequently.
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?
Answer:
The conceptual framework should help to ensure the consistency of the nonnative system based on a simple idea: provide an account as faithful as possible of the situation of the public entity's assets at the closing of the accounts, i.e. when recording the rights and obligations generated over the fiscal year at their relevant value based on their use/consumption at that selfsame time.
In this regard, changing a measurement method based on a projected, expected or scheduled change in the use of an asset should be ruled out.
21
Where an initial decision is made, whereas the accounts are yet to be closed, to embark on the plan to transfer a significant asset, following a subsequent implementation timetable, it will be most appropriate to include as an appendix an assessment of the proceeds expected from the projected transfer.
22

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5 July 2011

File Ref: AU/APS/2-0002

Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
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Canada

Dear Stephenie

CONSULTATION PAPER: 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 comment on the International Public Sector Accounting Standards Board's (IPSASB's) Consultation Paper: *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements* (the consultation paper). I am sorry that I did not get this to you by the due date. I trust that you will still be able to consider our comments.

In our view, it is important that the conceptual framework drives the measurement of assets and liabilities in financial statements off the objectives of financial reporting and the qualitative characteristics, within the constraints, as set out in other conceptual framework documents. If the conceptual framework sets up measurement in this way, it should provide an appropriate foundation for deciding on specific measurement bases within individual standards.

We attach our responses to the specific matters for comment. If you have any questions or would like clarification about any of our responses, please contact me in the first instance. I can be contacted by email (greg.schollum@oag.govt.nz) or phone (+64 4 917 1603).

Yours sincerely

Greg Schollum
Assistant Auditor-General (Accounting and Auditing Policy)

COMMENTS ON THE 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?

In our view, 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, rather than specifying a single measurement basis or combination of bases.

The measurement of assets and liabilities must be driven off the objectives of financial reporting and the qualitative characteristics, within the constraints, as set out in other conceptual framework documents.

In our view, the measurement of assets and liabilities part of the conceptual framework will need to clearly articulate the above point. Linking measurement to the objectives of financial reporting and qualitative characteristics provides sound underlying principles for the development of measurement requirements in individual standards. Also, in the absence of specific direction in a standard, the principles would help in selecting an appropriate measurement basis.

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.

We believe the role of the Framework is to identify factors that are relevant in selecting a measurement basis. However, if the Framework goes on to discuss the measurement basis, in our view, the best way to deliver a principles approach to measurement is to specify a combination of bases/approach. Of the options put forward we think the deprival value approach (d) or a combination of historical cost, replacement cost, and market value basis (g) would be best.

We favour the deprival value model because it provides a structure for making decisions about the measurement basis to use. In our view, the deprival value model appears to operationalise option (g) by outlining an approach to help in the decision making process.

Although we favour the deprival value model, we think it is important that it is carefully tested to ensure that the model works intuitively for all types of assets and liabilities.

Also, there is one matter that we are not sure about with the deprival value model, and that is its use of **net** selling price rather than market value. In our view, the rationale for using net selling price needs to be better explained.

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 believe that the discussion in the paper on historical cost, market value, replacement cost and deprival value is fair and balanced. Nevertheless, we have the following comments:

- As noted above, the paper does not fully explain the rationale for using '**net** selling price'.
- In our view, there needs to be consistency in the treatment of assets and liabilities. In that regard, we note that the cost of release does not incorporate transaction costs for the liability equivalent of selling costs. We believe the paper needs to include discussion about this point.
- There appears to be an inconsistency between Table 1 on page 14 and the third bullet point of paragraph 1.7. Based on our experience, the description in the third bullet point of paragraph 1.7 makes the most sense to us. Therefore, in our view, the intersection of the 'Entry or Exit' column and the replacement cost row should state that it may be either 'Entry' or 'Exit', rather than 'Entry' only.
- Also in table 1 on page 14, we think that the intersection of the 'Market or Entity-specific' column and the replacement cost row should state that it may be either 'Market' or 'Entity-specific', rather than 'Market' only.

Specific Matter for Comment 4

In your view:

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

In our view, the effect of an entity's own credit risk should be reflected in the measurement of liabilities at initial recognition. For example, if an entity with a credit risk higher than the risk free rate measured a bank loan on initial recognition using the risk free rate, the liability would exceed the amount borrowed. This would result in a debit entry created that regardless of how it was

treated (i.e. asset or expense) would not make sense. In our view, accounting in that manner would not reflect the underlying reality of the situation.

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

We believe that including credit risk in the re-measurement of liabilities can lead to counter-intuitive results. For example if the credit risk increases the fair value of the liability decreases, and the amount of the decrease is recognised as a gain in the statement of comprehensive income. Because of the counter-intuitive results, we struggle to see how taking account of credit risk in the re-measurement of liabilities provides meaningful information to users that helps them to either hold an entity to account, or make decisions.

In our view, when deciding whether or not to include an entity's credit risk in the re-measurement of liabilities, it is very important to consider the qualitative characteristic of understandability.

We believe more work needs to be done in this area. It would be useful to develop a clearer principle regarding credit risk for measuring liabilities, and guidance for use in different situations or different types of liabilities.

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 view it is conceptually sound to measure assets based on their "highest and best use", which could be an alternative use. However, we believe that the discussion in appendix 2 currently does not support a highest and best use approach.

When valuing assets, we consider that it is inappropriate to "dream" that the asset being valued is in another location as is suggested in the example provided in paragraph B1. Such an approach will not faithfully represent the value of the asset that the entity actually has.

In the case of the example in paragraph B1, it is likely that the property would have a market value, and in our view that would be an appropriate measure. If the building was so specialised that it did not have a market value, in our view it would be appropriate to separate the land and building components. The value of the land would be based on its market value as if it was bare land in its current location, and the value of the building would be based on its depreciated replacement cost.

Although we believe that highest and best use is the appropriate measurement basis, we acknowledge that there are some challenging issues that may arise; especially in valuing assets such as land under roads. In our view, it is appropriate that these sorts of issues are dealt with at the level of individual standards.

Other matters for comment:

On page 8 of the consultation paper, there is reference to 'replacement cost'. Based on our reading of the paper, it is clear to us that 'replacement cost' actually means 'depreciated replacement cost'. However, read in isolation replacement cost could be misunderstood. Therefore, it would be helpful, at least to footnote that replacement cost is synonymous with depreciated replacement cost the first time the term is used.

Denise Silva Ferreira Juvenal

rio1042370@terra.com.br

Accountant

Commentary individual

Rio de Janeiro / Brazil

Sir

Chair and Steering Committee

IPASB Technical Director
International Public Sector Accounting Standards Board Conceptual Framework

International Federation of Accountants
277 Wellington Street West, 6th Floor

15 June 2011

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

I´m Denise Juvenal this is pleased to have the opportunity to comment on this consultation. This is my individual commentary for IFAC-IPSAS. The measurement of Assets and Liabilities in Financial Statements is very important for established the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and other documents that provide guidance on information included in general purpose financial reports (GPFRs) as described in the introduction of the IPSAS Conceptual Framework.

Considering the development of countries and jurisdictions, with different political systems, different forms of government and different institutional and administrative services.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Consultation Paper. Comments are most helpful if they indicate the specific paragraph

or group of paragraphs to which they relate and contain a clear rationale. The Specific Matters for Comment requested in the Consultation Paper are provided below.

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?

Yes, I think that the framework of IPSAS will be make identify of possible factors that are relevant in selecting a measurement basis for particular assets and liabilities. It will be similar than IASB Framework that have objective "of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information … Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it."[1]

I observed that the proposal in relating a measurement basis for particular assets and liabilities in specific circumstances will be make consideration the clarification of IPSAS should be amended through the annual improvements process and interested parties when the develop comments on clarification and corrections proposed using that process similar than IASB process that was discussed in your meetings.[2]

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.

[1] **Framework for the Preparation and Presentation of Financial Statements of IASB pg 12-21 www.ifrs.org access in 04/10/2010**

[2] www.ifrs.org- Discussion paper comment letter CL 37 Annual improvements.

(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.

In relation in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), I think that is very important the Combinations of Bases/Approach with choose letter (e) Historical cost and market value for public entities and non-profit can be used market used, but will be observed that in some countries is very different application. The jurisdiction, culture rules and law can be observed for don´t make impact than don´t used your application for this IPSAS.

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).

This question is relationship with comment 2, will need to know how and what procedures for application in your countries principally in aspect of measurement bases, the IPSAS can be used similar than IASB but is need to observed the impact and regulations that this application will be occur in your countries. The IFAC will need to make the rules and your proposals will be accepted with same situations or discussions that private entities and rules for procedures for audit for public sector.

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?

I think that this question depends of comments 3, and the effect of an entity´s own credit risk be reflected in the measurement of liabilities at initial recognition have relation with the reflected when liabilities are subsequently remeasured. I don´t know but the measurement as explain for Soltani, 2007 said that "the audit of financial statements is a special type of assurance engagement that deals primarily wit accounting information. … the auditor attests to the fairness of a company´s financial statements, which are assertations by management regarding the financial performance and financial condition of the company, … For this is very important to observed the objectives and strategies for non-profit and public sector for valuation the business risks. "[3]

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?

This questions depends for question number 4. The include or no the incremental value is relationship with the analysis of the measurement, for this is very important to make analysis of risk and internal control, for don´t have problems in your application.

Thank you for opportunity for comments this proposals, if you have questions don´t hesitate contact to me, rio1042370@terra.com.br.

Yours Sincerily,
Denise Silva Ferreira Juvenal
rio1042370@terra.com.br
552193493961

[3] SOLTANI, Bahram. Auditing International Approach. England: Prentice Hall, 2007 p.12 and p 235

BRITISH COLUMBIA
The Best Place on Earth

July 12, 2011 244177

via-mail: EDComments@ifac.org
stepheniefox@ifac.org

Ms. Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ON M5V 3H2

Dear Stephenie Fox:

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

Thank you for the opportunity to comment on the above IPSASB Conceptual Framework Consultation Paper. We appreciate the amount of work that has gone into this document.

The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. PSAB is currently undertaking a review of its Conceptual Framework and has indicated that its taskforce undertaking the review will refer to the IPSASB Conceptual Framework Exposure Draft 1 and the accompanying Consultation Papers. As a consequence, we have a particular interest in the development of IPASAB's conceptual framework.

The Objectives of Financial Reporting

In a letter to you covering the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Exposure Draft the province outlined its views that government financial statements are primarily for accountability purposes and the ability of the financial statements to support decision making is limited. The province also noted that the general public is the primary user and does not support the bifurcation of the users into recipients and resource providers. The province noted in its letter commenting on the Consultation Paper covering Elements and Recognition that governments do not have capital and therefore capital maintenance principles do not apply. Attached to the latter letter was a table which summarizes the relationship of capital, capital maintenance principles and the appropriate measurement basis. The above comments are elaborated on in the two prior letters and are repeated here as they apply in a general sense to all issues covered in this letter.

.../2

Ministry of Finance Office of the Comptroller General
Mailing Address:
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Victoria BC V8W 9V1

This letter will summarize main points of view regarding the main sections of the Consultation Paper. Attached are three Appendices, Appendix A is a more detailed discussion of the issues in the Consultation Paper which provides more detail of the thinking behind the positions expressed in this letter, Appendix B is a chart outlining the features of various measurement bases, and Appendix C is a comparison of qualitative characteristics with the basis of valuation.

Objectives of this Consultation Paper

The province agrees that a single measurement basis may not be appropriate for all instances but the province supports the position currently stated in the PSAB conceptual framework "Government financial statements are, however, prepared primarily using the historical cost basis of measurement, whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances."[1] The province supports an entity specific view based on cost for accountability purposes and accepts that the same asset in two different entities may be "valued" under the same measurement method at different amounts and that these different values are useful to the user of the financial statements for comparative purposes.

Preferred Basis of Measurement

The province does not support attempting to value government at two points in time and identify the difference as a measure of performance. As noted above, the province believes the objective of government financial statements is accountability to the public for the funds raised and how they were expended for the benefit of the public. The cost basis of measurement is the most appropriate basis of measurement; recognizing that there is no attempt by government to realize or measure a return on capital and that no capital exists and no capital maintenance principles apply. It may be useful to note that by law the province must produce a balanced budget every year and is therefore prohibited by law to plan for a surplus/return on capital. It would not be appropriate for the province to follow a basis of accounting that is founded on a principle of measuring value or return on capital when such planning goals are prohibited by law.

Thank you again for the opportunity to comment on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements Consultation Paper. Letters on the related Consultation Paper covering Elements and Recognition in Financial Statements as well as the related Exposure Draft are being submitted separately. Should you have any comments or questions please contact me at (250) 387-6692 or by email: stuart.newton@gov.bc.ca or Carl Fischer, Executive Director, Financial Reporting and Advisory Branch, at (250) 356-9272 or by email: carl.fischer@gov.bc.ca .

Sincerely,

Stuart Newton
Comptroller General
Province of British Columbia

[1] Public Sector Accounting Handbook paragraph 1000.60

.../3

cc: Peter Milburn, Deputy Minister
Ministry of Finance

Sabine Feulgen, Deputy Secretary to the Treasury Board
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Charles Coe, Special Advisor, Accounting Policy
Office of the Comptroller General

Appendix A

Objectives of this Consultation Paper

This paper refers to the Asset and Liability-led approach vs. the Income Expense-led approach as not being associated with a particular measurement choice[2]. In the earlier letter covering the Consultation Paper on Elements and Recognition the province noted that IASB relates the the measurement basis for assets and liabilities to capital maintenance principles. Carrying that logic forward to this paper; the table in paragraph 1.11 has been expanded to reflect the relationship between various bases of capital, capital maintenance and the measurement basis (see Appendix B). The province believes that government is different than the private sector and the public sector conceptual framework should be developed from first principles; but it is noted that on several instances the Exposure Draft and Consultation Papers refer to IASB/IFRS as a basis of support for positions taken. Therefore, the province is concerned that the basis of the logic stated by IASB relating measurement basis to capital maintenance is rejected in paragraphs 1.4 and 1.5 of this Consultation Paper. It is brought back in paragraph 1.9 without recognizing that the asset and liability-led approach and the income/expense-led approach are based on/consistent with two different concepts of capital, being financial capital and no capital respectively (see Appendix B).

The province understands the comment in paragraph 1.5 that a single measurement basis may not be appropriate for all instances but the province supports the position currently stated in the PSAB conceptual framework "Government financial statements are, however, prepared primarily using the historical cost basis of measurement, whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place. Other bases of measurement are also used, but only in limited circumstances."

The Province recognizes that deemed cost may be applied in the case of an asset granted or given to the reporting entity or that impairment results in writing down the cost (one could argue the result is cost based; its recorded value does not continue to fluctuate based on market changes) or that net present values represent the best estimate of the current cost to liquidate a liability. None of the other measurement bases are free from exceptions to theoretical purity, such as using market indicators when an asset is not currently trading or estimated replacement cost for a non-traded asset. As stated the province supports the PSAB position that cost is the primary basis of measurement and that any departures from cost should be limited and individually justified. However the province does not support the position in paragraph 1.6 which argues that "different measurement bases are selected only where this is justified by economic circumstances, and hence that assets are reported on the same basis where circumstances are similar." The province supports an entity specific view based on cost for accountability purposes and accepts that the same asset in two different entities may be "valued" under the same measurement method at different amounts and that these different values are useful to the user of the financial statements for comparative purposes.

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[2] Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements, paragraph 1.4

The province does not support the view in paragraph 1.7 that "One objection to 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." As stated in an earlier letter the province believes that one of the fundamental objectives of financial statements that purport to establish accountability; is to clearly reflect the decisions, intentions and expectations of management and their impact on the operating statement and balance sheet. There are no grounds to claim that the cost basis of measurement, which uses an entity-specific perspective, is subjective and lacks verifiability and comparability.

Historical Cost Basis of Measurement

In the earlier letter covering the Consultation Paper on Elements and Recognition the province demonstrated that the historic cost basis of measurement reflects the fact that government does not have capital and need not apply capital maintenance principles. Accountability to the public is the primary goal of government financial statements and the cost basis specifically accounts for the expenditure of tax or other non-exchange revenue raised directly or indirectly from the public. To the extent that comparability with other governments or jurisdictions is relevant to the public the primary comparison is to determine whether the cost of providing services in the other jurisdiction is more or less than the reporting government (if you assume or know that the level of service is the same). This comparison of the cost of services provided is not possible if both jurisdictions use a market based/current cost valuation methodology, see below.

The Consultation Paper argues in paragraph 1.17 that "A representationally faithful statement of the cost of providing services requires that the full value of assets that are consumed in service provision is included in that cost." The province would agree to the extent that the full value is the cost, but later in the paper, paragraph 2.13, it seems the intention is to portray the full value as current market value or replacement cost to charge the income statement with the then current cost of service. This logic is not supported because there is no relationship between cost and revenue in a non-exchange system nor is there any demand management application in which the current cost of service is intended to send a message that continued high demand for service will require additional capacity and higher tariff/service fees to supply the service; government revenue is based on taxes which are not based on cost of service.

The province supports the statement in paragraph 2.3 and 2.11 that historical cost represents a historical, entity specific and entry-value perspective. This is the appropriate basis for determining accountability for the actual cost of supplying goods or services.

The province does not support the statements in paragraph 2.14 and 2.15 that information based on historic cost does not represent relevant information about the resources held by the government at the reporting date or that the information is not comparable. It is relevant to know what resources have been expended (the cost) to acquire assets that are used to provide service, this represents accountability for the tax revenue collected and the information is comparable to another entity and provides information regarding the ability of the reporting government to acquire assets for more or less than another government if a financial statement reader is focused on this issue.

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If a market basis of valuation was used by both governments, similar assets which may have cost different amounts are no longer comparable because under a market basis of measurement both would be represented as having the same value.

The logic of paragraph 2.17 is inappropriate in that it assumes that all liabilities are subject to price changes. Most liabilities for the delivery of goods or services to the province are subject to fixed prices contracts or invoices. The discharge of the liability will not change even if the contractor is charging a higher price for the same goods or services for a new purchase. Similarly estimates are just that; estimates of the cost, when a final price is known it is not an adjustment to market it is a refinement in the estimate or a fixing of the cost, once set it will not fluctuate with future changes in market prices so it is not a market adjustment.

It is appreciated that GFSM (paragraph 2.18) requires current values but this is for special purpose financial reporting; the needs of the primary user of the government financial statements should not be reconsidered or changed to meet special purpose needs.

Market Value Basis of Measurement

In describing the merits of the market value basis of measurement the consultation Paper notes (paragraph 3.4) that the "concept of capital that is implicit in the use of market values is that of the ability to earn a market rate of return". This is the financial capital concept (see Appendix B). Since government does not intend to or attempt to earn a rate of return this statement about the merits of the market basis of measurement undermines the relevance of the market value basis for public sector financial statements.

The province recognizes merit in applying the market basis of measurement in limited circumstances, such as the lower of cost or market in relation to some current assets, the use of the market value to fix the deemed cost at the point in time of a grant or gift of a non-cash asset, or the basis of estimating a liability that has not been settled or fixed. It is recognized that except for the continued application of the lower of cost or market for current assets the other uses of market values are for the purpose of establishing a value or deemed cost at a point in time; this value will not change in the future in parallel with continuing changes in the market value of that item and it would be inappropriate to refer to those cases as applications of the principle of market value basis of measurement. Other than the limited use of market values in conjunction with the cost basis of measurement, the province does not support the general application of a market basis of measurement.

The Consultation Paper claims (paragraph 3.5) that in an ideal context, defined as a deep and liquid market for all assets being measured, market values meet all of the qualitative characteristics. It is unfortunate that the Consultation Paper did not compare each of the bases of value measurement with the qualitative characteristics. Attached as Appendix C is a table showing how each of the principal value measurement bases compares with the qualitative characteristics. The table demonstrates that all three bases meet all of the qualitative characteristics, what is important is – what the primary user of the financial statements wants to use the financial statements for.

The comparison for relevance is useful in assessing this issue.

Comparison of Qualitative Characteristics			
Basis of Valuation	Cost	Market	Replacement Cost
Relevance	Cost of current service	Disposal value if service/asset no longer provided	Cost of future service if asset in use is immediately replaced

This issue is also explored in paragraph 3.8 which noted that "If market values are used as a measurement basis, a surplus or deficit is recognized as market values of assets and liabilities change." The Consultation Paper does not assess or make clear how or why it would be useful to the primary user (the public) of the financial statements to know what a potential gain or loss on government assets might be in an ideal market place. If the assets are to be retained and the goods or services need to be provided then there is no option to dispose of the assets and realize a gain or loss. Whether there is a gain or loss as a result of holding the assets is not relevant. All expenditures on capital assets as well as goods and services to be provided to the public must be voted on and approved in the legislative assembly through the budget and appropriation process. Governments do, when seeking to balance a budget or restrain expenditures, cut the supply or goods or services to the public. At that point the market value of assets that will be disposed of is valuable.

The Consultation paper points out limitations to using the market value basis of measurement. The province agrees that these are significant constraints to developing meaningful valuations. The existence of deep and liquid markets is an issue when considering the natural resources of Canadian jurisdictions, all of which would be seeking a value for their assets on the same day as they all have the same fiscal year end. It is doubtful there is any market deep enough or liquid enough to provide a true market price for these resources and the disruptive nature of placing such a huge quantity in even a deep market would have an adverse impact on the valuation. Thus any attempt to assess or extrapolate a market value would be very subjective. The second limitation is also significant because governments do not generally provide goods or services that can or are provided by the private sector, therefore the assets held to provide those services, such a defence and prisons etc are not readily marketable.[3] These assets are usually unique such as 1000 km. of road through the Rocky Mountains, or a hydro dam in a specific location. The Consultation Paper refers to service concession agreements as a basis to identify market value for these services. This is not likely to resolve the issue as service concession agreements provide other unique assets that are not comparable to the assets that need to be valued.

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[3] Where commercial operations are undertaken by government they are usually through a government business enterprise (GBE) which will follow IFRS. Canadian PSAB standards do not require line by line consolidation of GBEs.

Replacement Cost Value Basis of Measurement

The Consultation Paper acknowledges that the replacement cost bases of valuation is consistent with the physical or operation capacity capital concept. In which case, capital maintenance is defined as the amount needed to maintain physical delivery of goods and services at current levels on the basis of assets with equivalent service potential and not necessarily the replacement of identical assets. The description of the market basis of valuation is not specific but implies it would seek to determine the market value of a specific asset and if the market value is not readily available would use the replacement of that specific asset as an approximation of market value.

This method of measuring replacement cost would introduce considerable subjectivity and measurement issues. For example would a government replace two 300 mega-watt power plants with two new more efficient 300 mega-watt plants or one 600 mega-watt plant or incorporate that capacity onto a single 1 giga-watt plant or would it rebalance its entire generating capacity. This approach would be very time consuming and costly to implement.

One of the benefits of applying the replacement cost basis of measurement is identified as charging the current cost of providing goods and services. The intended benefit is to inform the public what the current cost of the service would be. The principle use of this methodology (long-run marginal cost) is in economic pricing models for demand management purposes. As noted above, there is no demand management function in a non-exchange system as taxes are not dependent upon consumption. Again as noted above, comparison between two reporting jurisdictions regarding their actual respective cost of providing services to the public would be lost if both used the same current cost of services methodology.

Deprival Value Bases of Measurement

The deprival value model is described as not prescribing a single measurement basis; it provides a rationale by which a specific basis may be selected as the most relevant in specific circumstances. The description suggests that the deprival value basis might select cost as the appropriate basis, although from the examples given it is difficult to understand under what circumstances that might occur. The deprival value model seeks to identify what would compensate the entity for loss of the asset, or what loss would be sustained by deprival, and what would the entity pay to buy the asset if did not already hold the asset. The Consultation Paper describes the methodology as identifying the recoverable amount as the higher of the value in use and the net selling price. Value in use is defined as the present value of the asset's remaining service potential plus its disposal value at the end of life and selling price as current selling price at the financial statement reporting date. This is basically a capital asset hold or sell model. The deprival model puts a limit on the value by limiting the result of the above comparison to not exceeding the asset's replacement cost.

The Consultation Paper correctly points out a limiting factor with this model in that many government assets do not generate a cash flow to be used as a basis for measuring service potential. In this jurisdiction the only assets that produce cash flow from exchange transactions (other than small service or license fees) are held in GBEs which follow IFRS.

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Under Canadian PSAB standards these entities are recorded in the public accounts on a modified equity basis, so that their assets are not reflected on a line by line basis in the provincial financial statements. The Consultation Paper suggests if there is no measure of cash inflows available then measure savings in the form of future cash outflows by continuing to use the asset. This basically means a comparison between replacement costs or outsourcing cost vs. the current selling price of the asset which is still a hold or sell consideration, the results of which may not exceed replacement cost.

The obvious concern with the deprival value bases of measurement is the complexity and subjectivity needed to complete the measurement, not to mention timeliness concerns to issue financial statements within a reasonable period after each reporting date. In addition the deprival basis of measurement is another model which attempts to place a subjective value on government assets and liabilities at the fiscal year end and compare that subjective value with another subjective value established at another arbitrary date.

Preferred Basis of Measurement

As stated before the province does not support attempting to value government at two points in time and identify the difference as a measure of performance. The province believes the objective of government financial statements is accountability to the public for the funds raised and how they were expended for the benefit of the public, for which the cost basis of measurement is the most appropriate basis of measurement; recognizing that there is no attempt by government to realize or measure a return on capital and that no capital exists and no capital maintenance principles apply. It may be useful to note that by law the province must produce a balanced budget every year and is therefore prohibited by law to plan for a surplus/return on capital. It would not be appropriate for the province to follow a basis of accounting that is founded on a principle of measuring value or return on capital when such planning goals are prohibited by law.

Measurement of Liabilities and an Entity's Own Credit Risk

The province does not support adjusting the recorded amount of any of its liabilities including issued bonds to a market value which would include reflecting the market perception of the government's credit risk. The province's financial statements are prepared on a going concern basis as prescribed by PSAB and would not support conveying to readers of the financial statements an impression that the face value of a $500 million bond issue is going to be paid out at $490 million because interest rates have risen. There may be merit in adjusting the carrying value of liabilities of jurisdictions experiencing serious financial difficulties such as some Southern European countries are currently experiencing but this would have to be seen as being an application of the going concern principle and not applicable generally to all jurisdiction's financial statements.

Assets that May be Sold for an Alternative Use

Consideration of alternative uses for an asset is an issue particular to market and replacement cost valuation models, it is not an issue with the cost basis of measurement. The fact that the land on which government assets sit may have changed in value does not change the need for the service being provided. Rail yards and docks are often located in the heart of a city which may have grown precisely because of the port facilitates. Water treatment and sewage treatment plants cannot be moved without substantial changes in the distribution or collection systems. Schools which may be more "portable" than the above examples may be located in areas which were not densely populated when the school was built but have become densely populated. In this case, the dense population may increase the need for a school in that area. The fact that government property can be used for an alternative purpose does not mean it should be or will be used for an alternative purpose. There are numerous examples of city parks that are located where they could be turned into residential areas at significant profit for the government; some examples include Hyde Park in London, Central Park in New York or Stanley Park in Vancouver. The Consultation Paper correctly points out that the "strength of the evidence that the value could actually be obtained from sale is relevant". It is understood that the Consultation Paper is thereby recognizing the political reality of attempting to sell any one of those parks. As noted above in relation to liabilities, if the going concern concept is suspended because of economic difficulties then these political realities may be reconsidered. The province has stated its preference for the cost basis of measurement which would not involve the issue of alternative use.

Appendix B

Features of Measurement Bases						
Capital Concept	**Capital Maintenance Concept**	**Accounting for Capital Maintenance Adjustments**	**Measurement Basis**	**Historical or Current value?**	**Entry or Exit point of measurement?**	**Value is Market or Entity Specific?**
None	None or not applicable	None	Historical Cost	Historical	Entry	Entity Specific
Financial Capital	Financial Capital Maintenance (Nominal Monetary Units)	Other Comprehensive Income (OCI)	Market Value	Current	May be either	Market
Financial Capital	Financial Capital Maintenance (Units of Constant purchasing power)	Change in Consumer Price Index to Capital; balance to OCI (Units of Constant purchasing power)	Market Value	Current	May be either	Market
Operating Physical Capital	Physical Capital Maintenance	To Capital	Replacement Cost	Current	Entry	Entity Specific

Appendix C

Comparison of Qualitative Characteristics			
Basis of Valuation	Cost	Market	Replacement Cost
Relevance	Cost of current service	Disposal value if service/asset no longer provided	Cost of future service if asset in use is immediately replaced
Faithfull Representation	Of cost of current service	Of current value	Of cost of future service
Understandability	Easily understood	Easily understood	Easily understood
Timeliness (marketable assets)	Very timely, value is fixed and doesn't change	Timely if asset is tradable and amount measured is marginal to traded volume	Timely if asset is tradable and amount measured is marginal to traded volume
Timeliness (non-tradable infrastructure)	Very timely, value is fixed and doesn't change (except for impairment)	Not timely as not tradable, use of replacement cost is subjective and likely higher than disposal value	Not timely as use of replacement cost is subjective for current cost and very subjective for cost at end of useful life of capital assets
Comparability	Compares current cost of service between jurisdictions	Not comparable as all use the same value(s)	Compares the cost to provide service in the future
Verifiability	Easily verified	Easily verifiable for tradable assets Not easily verifiable for non-traded assets	Easily verifiable for tradable assets Not easily verifiable for non-traded assets

June 15, 2011

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

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

Dear Sir :

The Japanese Institute of Certified Public Accountants ("we", "our", and "JICPA") is pleased to provide you with our comments related to the above-captioned matter. Based on our review, we have the following comments.

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?

We believe that the purpose of selecting a measurement basis for particular assets and liabilities in specific circumstances is to maximize the value of information, based on the requirements of users, taking into consideration the balance between the benefits to the users and the costs to the preparers. We consider that the role of the Framework is not only to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, but also to describe the way in which qualitative characteristics (relevance and faithful representation) should be considered in the selection of a measurement basis.

In the Framework, a list of measurement bases that may be used in the selection should be included, and the strengths and weaknesses of each of these should be described from the aspect of qualitative characteristics of beneficial financial information. Further, the treatment of qualitative characteristics and cost constraints should be considered for determination of a measurement basis at the time of setting the accounting standards.

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.

As stated in our response to Specific Matter for Comment 1, the purpose of the conceptual framework is to provide a framework for the consideration of accounting standards and beneficial information to determine the standards. Therefore, we believe that it is important to list the measurement bases that may be adopted in the accounting standards, rather than restricting this to a single measurement basis or combination of bases.

Concerning the selection of a measurement basis, some of our members ex-

pressed the view that, in addition to the deprival value model, the following should be discussed from the perspective of relevance;

i. Focusing on the generation or non-generation of cash flow, the deprival-value (relief-value) approach should be used for cash-generating assets (liabilities) and the historical cost should be used for non-cash-generating assets (liabilities).
ii. Focusing on business models, the cost model (alternatively, the revaluation model) should be applied to assets and liabilities with the prerequisite of a constant cash flow; and the revaluation model should be applied to other assets and liabilities.
iii. Assets are categorized into financial assets and business assets focusing on the theory of circuit of capital; therefore, in principle, the mark-to-market valuation should be applied to financial assets, and the historical cost should be applied to business assets.

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).

The following are our comments on the deprival value model.

Paragraph 5.2 states “The deprival value model does not prescribe a single measurement basis, but rather provides a rationale by which a specific basis may be selected as the most relevant in specific circumstances.”

It should be understood that the deprival value model is not the most relevant among the alternatives of the measurement bases for assets, however it

is, among the present value models. The IPSASB should fully consider the reasons why the present value model is the most relevant for measurements of assets at public sector entities.
We believe it is necessary to clarify that the purpose of the inclusion of assets in the statement of the financial position of public sector entities is to show whether or not public sector entities currently have sufficient benefits to provide public services to citizens, or to show whether or not public sector entities will maintain sufficient benefits to provide public services to citizens in the future.
We stated our views in the comment letter responding to the Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements."
For instance, if the assets as of a given reporting date are recorded to reflect current benefits that enable public sector entities to provide public services to citizens, and as resources in previous spending by public sector entities that have not been allotted, then measurements based on historical cost, rather than the present value model, may be more relevant.

With regard to the discussion of the deprival value model, the meaning and treatment, in statement of financial performance, of the revaluation surplus or deficit resulting from asset revaluation based on the replacement cost have not been considered; therefore, we believe IPSASB needs to discuss such issue. One of the most important issues is revaluation surplus or deficit of land used for infrastructure assets (roads, etc.), and facilities used to provide services. This is important for physical capital maintenance during periods of inflation. We believe that revaluation surplus or deficit caused by price fluctuation is an adjustment of capital.

Valuation based on replacement cost is not sufficient for the valuation of service potential that is required by citizens at times of rapid technological advances; for instance, for revaluations of buildings constructed under older, more lenient earthquake resistance standards, and of structures such as deteriorated water and sewage facilities. We consider that this is a problem in respect of the relevance of the deprival value model.

Our comment on the measurement of liabilities is as follows.
We believe that, from the aspect of relevance, in addition to the relief value model, the IPSASB should consider the measurement bases of liabilities (scheduled payments, cash received, discounted values, market values, etc.)..

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?

We consider that only the service potential relating to the existing use should be reflected in the measurement of the assets reported in the statement of the financial position. The reason for this are assumed continuity of government services, and that government services are cancelled only when such services become no more important, or for similar reasons. Therefore, even if there is no restriction in the use of such assets and there is a higher service potential in the assets, the assets would rarely be converted a different use.

Tadashi Sekikawa
Executive Board Member － Public Sector Accounting and Audit Practice

Naohide Endo
Executive Board Member － Public Sector Accounting and Audit Practice

June 24, 2011

Ms. Stephenie Fox
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, ON M5V 3H2

Dear Ms. Fox:

We are pleased to provide you with Nova Scotia's comments regarding the International Public Sector Accounting Standards Board's Exposure Draft and Consultation Papers regarding the conceptual framework for general purpose financial reporting by public sector entities. We hope you find our comments helpful and we would be pleased to discuss any of these issues in greater detail should you wish. We are interested in monitoring and participating in the development of international public sector accounting standards.

The following pages provide Nova Scotia's detailed responses to the specific matters for comment regarding the exposure draft and two consultation papers. The general position of Nova Scotia is that we are not comfortable with the scope IPSASB is building in the conceptual framework. We feel that the framework is too broad and has not fully considered how accounting standards relate to government/ public sector accountability. It is Nova Scotia's view that standard setting relates to accounting principles and these accounting principles need to consider a public sector entity's fiscal/ financial reporting as its reference point. However, it is important that the standard setter does not step into a role of presuming to have authority over how these fiscal/ financial plans are developed or overstep by being too prescriptive with regard to the standard setter's "requirements". Government must maintain the prerogative to budget, and provide interim reports, based on the relevant information for the particular circumstance. This requires great flexibility and does not need to be subject to standardized accounting principles (i.e. sometimes cash projections are appropriate).

Accounting principles are a critical element of fair presentation of financial statements. Logically, the budget should be presented in a manner that is comparable to the financial statement presentation (to complete the accountability cycle) however the responsibility for this policy decision is the government's.

Nova Scotia views the conceptual framework as stepping into the role of sovereign entities and feel it goes too far.

At a high level, we feel the conceptual framework should acknowledge governments' role in managing public money and their accountability to their citizens and residents to demonstrate if the public money has been used as budgeted. The framework should recognize where governments manage risks effectively the standards should allow for these strategies to be recognized and disclosed to reflect the substance of the transactions. We feel standard setters are veering away from this position and are

attempting to prescribe too much and are starting, in some instances, to overly complicate the financial statements. We would prefer the professional bodies push their membership, including the audit community, to apply standards as they are intended rather than set the standards based largely on what is happening in the private sector when the facts and circumstances are fundamentally different. As professionals we must be held to high standards and emphasize the need for continued application of professional judgment and ethics.

Sincerely,

Byron Rafuse
Associate Deputy Minister & Controller

The Specific Matters for Comment requested in the Consultation Paper are provided below.

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?

Nova Scotia's comments:

Nova Scotia's position is that the framework should identify the single measurement basis viewed as most appropriate for the elements of the financial statements. Where there is cause for divergence from the single measurement basis (and the divergence should be on an exception basis) this should be supported by the underlying concepts of the framework, and could be addressed within the framework.

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.

Nova Scotia's comments:

Nova Scotia's position is that the primary measurement basis should be historical cost. This basis is most consistent with the accountability framework of government. This position is based on the need for this conceptual framework having its scope brought back to the appropriate level of general purpose financial statements. Broadening the scope to all types of financial reporting, for address the many needs of distinct user groups, for different layers of one controlled government body, and including past, present and future financial and non-financial information would admittedly make historical cost not sufficient. However, the fundamental purpose of accounting standards are to account for the impact of decisions made – forecasts are developed to assess future situations.

Users of the financial statements, generally being citizens and residents, need to assess if government is living within its means over a number of years. Users need to be able to assess if decisions being made regarding levels of taxation, user fees, and services to the public are being managed in a balanced manner. The historical cost measurement basis allows for this

assessment. Questions such as "was the school affordable?", "can the hospital stay open?", are answered by looking at the cost of that particular initiative – replacement value, or fair value is not relevant. Those concepts, replacement value/ fair value, are relevant when planning the next project, but this type of speculative projection is not appropriate for financial statements.

Fair value measures can be very relevant when government hold debt instruments or investments that are not intended to be held to maturity and are not hedged. In these instances Nova Scotia does acknowledge a place for market value.

Again, governments are elected with mandates, they then need to develop their work plan and budget, the budget establishes the spending limits for a fiscal year, there are regular updates to the budget through the year, and the accountability cycle is completed with the audited financial statements. The historical cost method is used to establish the budget, establish the borrowing plan, and is therefore appropriate throughout the completion of the year end financial statements.

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).

Nova Scotia's comments:

Nova Scotia's primary concern is that IPSASB has broadened the scope of the conceptual framework too much. By focusing on such a wide range of financial reporting it makes it impossible to really focus on any measurement basis as being appropriate.

Governments, like private sector enterprises, must retain sole responsibility to budget and plan as they see fit. Audited financial statements are useful in enhancing clear disclosure and determining the financial position of the government. Ultimately the electorate will determine if they are satisfied with the results. An attempt to standardize all forms of financial reporting (including non-financial aspects) pushes the accounting profession beyond its authority and arguably beyond its expertise. This is a critical issue.

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?

Nova Scotia's comments:

Nova Scotia is supportive of having the entity's own credit risk being reflected in the measurement of liabilities at initial recognition however we are not supportive of remeasuring this at each subsequent remeasurement date.

When Nova Scotia raises capital through debt issuances the debt instrument will be held to maturity. The fair value in one year's time is not relevant; the relevant information is how much principal will need to be funded upon maturity. Again, the budget develops the spending plan and informs the liability management plan (i.e. how much will be borrowed to fund the spending plan). Once the funds are borrowed a long-term position is committed to and changes in the Province's credit risk are not relevant to previous borrowings.

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?

Nova Scotia's comments:

Nova Scotia is supportive of evaluating tangible capital assets at historic cost and evaluating these assets with a general assessment of potential impairment if the service potential has been compromised. This would lead to our position being supportive of "only the service potential" being considered. Nova Scotia would not be supportive of recognizing incremental value relating to the "possible sale for an alternative use". Such changes in value would be very subjective (in dollar amount and in likelihood of ever transpiring) and we feel this would distort the resources available to the Province when increased value is attributed to an asset that would never be sold or have its use changed.

Manitoba

Finance **Comptroller's Division**

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June 15th, 2011

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

Dear Sir/Madam:

Re: Consultation Papers – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Thank you for the opportunity to comment on the two Consultation Papers covering Elements and Recognition in Financial Statements and Measurement of Assets and Liabilities in Financial Statements.

The Manitoba Government supports your initiative to develop a Conceptual Framework which can be applied in developing future International Public Sector Accounting Standards (IPSAS) for General Purpose Financial Statements (GPFS). We understand that IPSASB has not provided preliminary views on the issues so as to solicit as many comments as possible from the various stakeholders. We have chosen to comment on the two Consultation Papers together.

The final development of the Conceptual Framework should be driven by the primary objective of General Purpose Financial Statements (GPFS). The objective of financial reporting in the public sector should be to provide information to users for:

1. Evaluating the government's management of its financial resources in the accounting period; and
2. Assessing whether the resources were managed within the legislated limits.

The primary user of GPFS in the public sector is the general public. The goal of the Conceptual Framework should be to provide useful information to the users of GPFS. The Conceptual Framework should strive for the proper balance between IPSASB's qualitative characteristics for financial information. Financial information in GPFS should faithfully represent the economic position of the government as best as possible but it should also be verifiable and comparable between jurisdictions. But just as important GPFS should provide relevant, timely and understandable information to the general public.

We wish begin by stating that only 4 elements are required in a Conceptual Framework for public sector accounting:

1. Assets;
2. Liabilities;
3. Revenues; and
4. Expenses.

The Consultation Paper discusses other possible elements such as deferred outflows and inflows and ownership or equity interests. The Conceptual Framework should allow for the deferral of cash outflows and inflows. This would better align financial reporting with the objective of determining whether resources were managed within approved budgets. However deferred outflows and inflows should only be allowed on the statement of financial position if they meet the characteristics of a liability or asset.

The concepts of ownership and equity interests are inappropriate for a Conceptual Framework for public sector accounting. We are of the view that any net asset position simply represents resources that can be used to provide services to the general public in the next accounting period. A net liability position represents the requirement to raise additional net revenues for past operations in future accounting periods.

ASSETS

Assets should have **all three** essential characteristics:

1. Embody a future benefit that allows a government to generate future net cash flows or provide goods and services;
2. The government can control access to the benefit or restrict access to others; and
3. A transaction or event giving rise to government's control of the benefit has already occurred.

1) The Substance of an Asset:

Assets are economic benefits that either have service potential or generate net cash flows.

The definition of a benefit should also include the unconditional right to receive resources in the future. Protection against losses through insurance coverage would be an example of an unconditional right to receive resources in the future. This however should not include contracts for the future delivery of goods and services at a specified price. This does not represent an unconditional right to receive resources in the future since the government would also has an equal unconditional promise to deliver economic resources in the future. If the public entity has negotiated a favorable price for the future delivery of goods and services then the entity's prudent management of its resources will be evident when it provides the services to the public.

2) How to Determine if it is an Asset of the Reporting Entity:

To be considered an asset of the government, the government has to be able to control the economic benefit. Control is described as the ability of the government to utilize the resource for its benefit and to determine the nature and manner of its use. Control could also be further defined as having the ability to determine how to use the assets (i.e. access to rights); the ability to deny others access to the economic benefit (i.e. restrict or deny access of others); and having enforceable claims to a resource (i.e. enforceable claim to benefits). These are all refinements on the concept of control.

It is important to note that a government's control, enforceable claims to benefits or ability to deny, restrict, or otherwise regulate others' access only serves to link a public sector entity to an economic benefit. For the economic benefit to be considered to be an asset under the control of the government it is necessary to have a prior transaction or event.

3) Past Transaction or Event

The Consultation Paper discusses if the occurrence of a past event or transaction, which gave rise to the government's control of the economic benefit, is necessary, or is it simply sufficient for the economic resource to be present at the balance sheet date. We strongly believe that the occurrence of a past transaction or event, which gave rise to the government's control of the economic benefit, is a necessary characteristic of an asset.

The Consultation Paper makes the argument that the inability to identify a past transaction may lead to the non-recognition of an asset, or past transaction or events may have resulted in an asset that no longer exists. There is always an event or transaction that led to the government's control of the asset. For most assets the

transaction or event is very easy to identify. The vast majority of public sector assets result from incurring expenditures that will be used to provide services to the public at a later date.

Another example of a past transaction or event be the government granting access to natural resources to another party. An example would be royalties collected by governments for the extraction of timber, minerals and other natural resources. We would not view it appropriate for governments to accrue natural resources as an asset at the reporting date.

If the Conceptual Framework required governments to accrue natural resources it would not only be difficult to verify but the information would be of little relevance without also accruing a liability for extracting the resources. This would require governments to develop complex and very subjective estimates. This would likely reduce the timeliness of the information and the comparability of the information between jurisdictions. The information would likely not be understood by the general public and it really doesn't provide any relevant information in assessing the government's management of its financial resources.

We do not agree with the view that a government's right to the benefits from future taxes and fees represents a perpetual asset at every reporting date, even if it was possible to place a value on such an asset. We are of the view that the authority of governments to tax or raise fees does not represent an asset. The authority to raise taxes and levy fees is not a right to future benefits until the government has exercised that right. An asset exists at the reporting date only after the government has passed the legislation and levied the tax for the fiscal period, or has provided the services to the users for a fee.

4) Measurement

We view historical cost as the most appropriate measurement basis for the public sector. The objective of financial reporting is to provide information to the users. Historical cost is verifiable and understood by the users. This enhances the qualitative characteristics of the financial information to the users.

Replacement cost provides more relevant information on capital assets for decision makers. Replacement cost would result in higher amortization expense. The higher amortization expense would better represent the actual cost to the public of using the asset in the accounting period. In a balanced budget environment revenues would be raised to match the higher amortization charges, a non-cash expense, thereby creating larger cash reserves to replace the asset at the end of its useful life.

The difficulty with replacement cost is that for some assets it is very problematic to determine or estimate the replacement cost of an asset. This is especially true for infrastructure assets such as water and sewer treatment plants, roads, streets, bridges and other transportation infrastructure. Changes in technology and regulatory standards further complicate determining the replacement cost of an asset. This would likely reduce the timeliness, comparability and verifiability of financial information.

Market value would be an appropriate measurement basis for some assets on a limited basis such as investments that are traded publicly and have a quoted market price.

LIABILITIES

Obligations are not liabilities unless they have all three essential characteristics:

1. They embody a duty or responsibility to others leaving the government little or no discretion to avoid settlement of the obligation;
2. The settlement of the obligation entails the transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on the occurrence of a specified event, or on demand; and
3. The transactions obligating the government have already occurred.

1) The Substance of a Liability

We agree that the existence of an obligation is a required characteristic to define a liability. An obligation is a duty or responsibility to act or perform in a particular way to another party. The obligation to the other party requires settlement through the future transfer of assets, provision of goods and services or other form of economic settlement.

While all liabilities are obligations, not all obligations are liabilities. An obligation to other parties, in and of itself, is not a liability.

The Consultation Paper distinguished between unconditional and conditional obligations. Conditional obligations are not viewed as liabilities at the reporting date because the condition obligating the government has not occurred. The Public Sector Accounting Board (PSAB) in Canada uses the term contingent liability to describe a conditional obligation. Contingent liabilities are not recorded as a liability until the condition or confirming event occurs, or is viewed as likely to occur.

The Consultation Paper describes unconditional obligations as having uncertainty as to whether the obligation will even have to be settled, but no uncertainty as to existence of the obligation. Our view is that if the obligation does not embody the future sacrifice of assets then if fails to meet an essential characteristic of a liability. If the settlement of the obligation is uncertain, because it is dependent on a future event, then it is a conditional obligation or contingent liability.

Guarantees against losses for floods, crop failures, export receivables, etc. are described as stand-ready obligations. We view a stand-ready obligation to compensate a future loss as a conditional obligation that should be accrued as a liability only when the insurable loss or other necessary conditions occurs, or is viewed as likely to occur.

A performance obligation is an obligation in an agreement between the government and another party to transfer assets or provide a service to the other party. Agreements by the government to provide access to assets to other parties or to forgo future assets are also performance obligations. The PSAB refers to performance obligations as contractual obligations or commitments. We agree that performance obligations are obligations since they represent a duty or responsibility to others and embody the future sacrifice of assets. However to be recorded as a liability they have to be present obligations at the reporting date. Commitments to future expenditures would not be a liability since the government still has realistic alternatives to change or avoid the obligation through its own actions.

We view a settlement date as a required characteristic of a liability. If there is no settlement date then the obligation can't be a liability since there will be no future sacrifice of economic benefits. In most cases the settlement date is on demand or on the occurrence of a specified event. The government does not need to determine the exact date the liability will be settled. The determination of the specified event and its eventual occurrence is sufficient to be recognized as a settlement date. For example governments who provide severance benefits to their employees do not know the exact date the employee will leave. But there is no uncertainty that one day the employee will end his employment with the government and the obligation will have to be settled.

2) Liability of the Reporting Entity

The absence of a realistic alternative to avoid the settlement of the obligation is an essential characteristic of a liability. The characteristic links the obligation to the public sector entity. The absence of a realistic alternative should not only include legally enforceable obligations but also situations where the government has created a valid expectation among others that the obligation will be settled. Situations where the government still has choice on how to act would not represent a lack of discretion or reasonable alternatives to avoid the obligation. Budgeted acquisitions or future program expenditures are not present obligations since the government still has discretion to avoid the obligation through its own actions.

3) Liability at the Reporting Date

Governments have many future obligations but only present obligations at the reporting date should be accrued as liabilities. The event or transaction obligating the government must have already occurred as of the reporting date to be accrued as a liability. In most situations the event can be easily identified. For exchange transaction

the goods or services, including the services of employees, have already been provided to the government. Commitments to future program expenditures are not liabilities at the reporting date because the government still has the discretion to avoid the obligation through its own actions. Contractual obligations are also not liabilities unless the contracted party has provided good and/or services by the reporting date.

At times the government may have conditional obligations. The determination of whether or not the conditional obligation is a liability at the reporting date will be confirmed by a future event that is not within the government's control. If the occurrence of the condition or future event is not determinable then the government does not have a liability at the reporting date. If the confirming event occurs before the release of the GPFS, or is even simply likely to happen, then the conditional obligation is a present obligation at the reporting date and should be recorded as a liability.

REVENUES & EXPENSES

Most of this section was devoted to contrasting the **Asset & Liability Led (A&L) Approach** against the **Revenue and Expense Led (R&E) Approach**. The approach that you prefer determines what you consider to be the primary elements of GPFS. Under the R&E approach revenues and expenses are the primary elements and are seen as inflows and outflows that are applicable to the period. In contrast, under the A&L approach changes in your assets and liabilities determines the operating results for the period. Changes in the assets and liabilities are simply seen as inflows and outflows during the period.

Both approaches have their strong points. Supporters of both approaches do agree that the statement of financial performance is important in meeting the objectives of financial reporting in the public sector. The objective of financial reporting in the public sector is to provide information to the users for:

1. Evaluating the government's management of its financial resources in the accounting period; and
2. Assessing whether the resources were managed within the legislated limits.

The first objective suggests the need for governments to properly manage its physical assets and liabilities as best as possible. The function of governments is to provide public goods and services. It can thus be argued that financial statements should be grounded in real economic substance so as to provide users with relevant information on the net resources available for future operations. The A&L approach is better suited for meeting the first objective of financial reporting.

The R&E approach is favored because it reduces volatility on the statement of performance. The R&E approach is better aligned with the second objective of financial reporting. The second objective views the budget as playing the most significant role in the accountability cycle of the government. The budget is the publicly communicated document against which the general public evaluates the operating results for the period.

It is our view that the Conceptual Framework should be equally aligned with both objectives. We prefer the R&E approach but we feel it is important to assign cash flows to the applicable period. However we also strongly believe that the statement of financial position should only include assets and liabilities that have real economic substance. Deferred inflows and outflows should only be included on the statement of financial position if they meet the characteristics we previously described for liabilities and assets. We therefore do not see any need to include deferred outflows and deferred inflows as separate elements of financial statements.

As an example of our suggested approach we will use a transfer to the government received on the last day of a fiscal year. The purpose of the grant can be either for operating a specific program with stipulated objectives; or acquiring or constructing a capital asset.

Under the A&L approach the government's net assets have increased by the amount of the transfer. The transfer is reflected as revenue on the statement of performance even though the government has not incurred an expenditure towards the purpose of the transfer. Under the R&E approach the transfer would be deferred thereby having no net effect on the net assets at the reporting date. The deferred inflow can be brought into income and be properly matched with the related expenditures in future accounting periods.

Using our example it is our view that the transfer represents an asset to the government at year end but also meets the criteria of a liability.

1. The government has a duty or responsibility to the transferor leaving the government little or no discretion but to use the funds as stipulated by the transferor.
2. The settlement of the obligation entails the expenditure of the funds within the timeframe stipulated by the transferor.
3. The transactions obligating the government have already occurred. The government was eligible for the transfer and/ transfer has been received or is receivable as of the reporting date. This would make the transfer a present obligation.

The Conceptual Framework chosen should try to balance the two objectives of financial reporting as best as possible. Both objectives are important and cannot be properly balanced by selecting one approach over the other. We believe that the approach selected has to provide useful information to users for both objectives.

Other Comments

We would again like to express our concerns regarding the proposed scope of the Conceptual Framework. We like to emphasize that the type and extent of information on service delivery performance should be at the government's discretion. This type of information is highly subjective and is based on assumptions and estimates. Including this information within the scope of the Conceptual Framework will expose the information to the same level of assurance as GPFS. This will create significant issues for governments as well as the audit community.

We would like to again thank you for the opportunity to comment on the Conceptual Framework.

Yours truly,

Betty-Anne Pratt, CA
Provincial Comptroller
Province of Manitoba