INTERNATIONAL FEDERATION OF ACCOUNTANTS
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Agenda Item
4D

Date: August 27, 2011
Memo to: Members of the IPSASB
From: Andrew Lennard
Subject: Review of Submissions to Conceptual Framework Consultation Paper #3: *Measurement of Assets and Liabilities in Financial Statements*

Objectives

1. The objectives of this session are to:

- **Consider** responses to the Phase 3 Consultation Paper (Framework–CP3), *Measurement of Assets and Liabilities in Financial Statements*; and
- **Identify** issues for further detailed consideration at the December meeting.

Action Required

2. The IPSASB is asked to:

- **Consider** the issues identified in the agenda material and staff views on these issues;
- **Provide** directions on approach to be adopted in development of an Exposure Draft (ED), where appropriate; and
- **Identify** the issues on which further discussion should be focused at the December meeting.

Agenda Material

4D.1 Overview of responses by geographic location, function and language;

4D.2 Staff summary and collation of responses received; and

Other relevant materials previously distributed:

A copy of Framework CP -3; and

A copy of all submissions received.

Background

3. Framework–CP3 was issued in December 2010. As at August 25th 2010, 35 responses had been received. An analysis of the responses by region, type and language is included at Agenda Item 4D.1. Responses received after this date will be posted on the internet and provided to Members, Technical Advisors (TAs) and Observers. However, they will not be incorporated in Agenda Item 4D.1 or Agenda Item 4D.2.

4. This memorandum highlights respondents' general comments and analyzes comments on the Specific Matters for Comment (SMC) and other matters raised by respondents. As with all collations and analyses, judgment has been necessary in categorizing and interpreting responses and drawing out major points. It is therefore important that Members, TAs and Observers refer to the responses themselves rather than relying on the staff analysis.

5. This memorandum draws out some of the points that Staff considers should be discussed at the meeting. Agenda Item 4D.2 provides a cut and paste of comments that Staff consider most salient together with a Staff comment where appropriate. It includes most, but not all the text from the responses.

6. SMCs 4 and 5 dealt with two specific matters: (i) the treatment of an entity's own credit risk and (ii) the basis of valuation of assets with alternative uses. Agenda Item 4D.3 includes a preliminary classification of responses to these issues, but they are not discussed in detail in this memorandum. Staff expects to discuss the treatment of these issues in the ED at the December meeting. Staff notes that certain respondents (Respondents 12, 21, 26 and 28) suggested that the issue should be addressed at the level of standards rather than in the Framework. In the view of Staff this view is persuasive and, dependent upon Members' views, it may not be fruitful to devote a great deal of forthcoming agenda time to these issues.

General Comments

7. As might be expected, there is a considerable diversity in the views expressed by respondents. Some of this diversity seems to be the result of differences in respondents' views of how decisions made at the level of the Framework and in standards may be reflected in standards. There is also a range of views expressed as to how the Framework should relate to current practice: some respondents advocate a Framework that could provide a basis for improvements in financial reporting, whilst others object to principles that differ from current practice.

8. The strength of views of respondents is apparent. Many of the responses set out views cogently and at considerable length.

9. A very general conclusion that may be drawn from these observations is that there is a considerable challenge in taking on board all the comments that have been received. Many of the views expressed are irreconcilable and therefore cannot all

be reflected in the core text of the ED itself. However, there is much to be learned from the responses. A good due process requires not only that the thoughtful arguments are carefully evaluated, but also that it is demonstrated that they have been considered, and the use made of the comments is justified.

10. Staff therefore proposes to develop a comprehensive Basis for Conclusions to accompany the ED. Not only is this courteous to the respondents, it will help to assist those who read the ED (and ultimately those who use the Framework) to understand it better.

Key Issues

Specific Matters for Comment (SMCs 1, 2 and 3)

A measurement objective

11. The first two Specific Matters for Comment were:

SMC1: 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?

SMC2: 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? (The SMC then provided a list of possible measurement bases or combinations.)

12. The collation of responses shows that a majority of respondents to SMC 1 (72%) supported the suggestion that the Framework should identify factors that are relevant to selecting a measurement basis rather than specify a single measurement basis or combination of bases.

13. It might therefore be expected that these respondents would regard SMC 2 as not applicable: however, most respondents (61%) responded in sufficient detail to enable their responses to be categorized as expressing a preference for a measurement basis (or combination of bases). This suggests that the responses to SMC 1 should be viewed cautiously.

14. It is also possible that those who advocated that the Framework should identify relevant factors had differing views as to what the result of doing so would be. For example, each of the following might be viewed as meeting this view:

(a) A discussion of a number of possible measurement bases, possibly including a discussion of the extent to which they met the objectives of financial reporting and fulfilled the qualitative characteristics (QCs).

(b) The identification of a preferred measurement basis, with an acknowledgement that another basis might be used in some circumstances.

(c) The identification of a conceptually ideal basis of measurement, with a discussion of what surrogates or proxies might be used in practice to approximate that ideal. One structure for this sort of approach might include a hierarchy that would require the use of the highest level of the hierarchy that was practicable in the circumstances.

15. It will be apparent that approach (c) might be viewed as implementing either an 'identify relevant factors' or a 'specify a single measurement basis' approach. In other words, the contrast between the two approaches that was highlighted in SMC 1 might overstate the issue. Several respondents who support the identification of an ideal measurement, or a measurement objective, agree that this should not preclude the discussion of specific measurement bases that might be used in certain cases. (Some of these respondents highlighted that the Framework should not be so specific in the cases that it addressed to trespass on issues that are more appropriately dealt with at the standards level).

16. For example, Respondent 20 stated:

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

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

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

17. This seems consonant with the view expressed by Respondent 26:

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.

18. Viewed as a whole, the responses seem to support the idea that the Framework should not attempt to establish a firm requirement that a particular measurement basis (or bases) should always be used, but that there is a need to provide a

structured rationale, linking to the objectives of financial reporting and the qualitative characteristics, and identifying a measurement objective.

19. However, staff is firmly of the view that the Framework must provide assistance in the development of accounting standards: it cannot merely be as aspirational ideal that cannot influence the direction of financial reporting. Thus discussion of a specific measurement objective must be buttressed by discussion of specific measurement bases and the circumstances in which they may be candidates to be specified in accounting standards.

20. It is not proposed to ask the Board to decide what the measurement objective should be at this meeting. However, staff notes that the deprival value model suggested that it sought to reflect the extent to which the entity is "better off"' because it holds the asset, or the answer to the following questions:

- What amount would just compensate the entity for the loss of the asset?
- What loss would the entity sustain if deprived of the asset?
- How much would the entity rationally pay to acquire the asset (if it did not already hold it)?

Concepts of capital and capital maintenance

21. Closely related to the issue of whether a measurement objective should be specified is the consideration of specifying (one or more) capital maintenance concepts. This was clearly of great importance to a number of respondents, for example Respondents 2, 5, 17, 20 and 26. Respondent 2 made the point as follows:

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

22. Staff questions whether the link between measurement bases and concepts of capital and capital maintenance is necessarily as strong as some respondents suggest. It also notes that even some of those who support these concepts recognize that it is unlikely to be practicable to implement them comprehensively. However, it seems clear that for an ED to be acceptable it must contain a clear and robust discussion of these concepts and the role that they play in the selection of a measurement basis.

Reporting changes in the amounts of assets and liabilities

23. The Consultation Paper focussed on only one issue: on what basis is the amount at which assets and liabilities are to be stated in the statement of financial position to be derived. Generally, the view was taken that the reporting of changes in those amounts fell outside of this phase of the Framework project (although some observations were made about the meaning and relevance of costs reported as the consumption of assets made on different bases). However, if the ED is to discuss concepts of capital maintenance it would seem inevitable that some discussion of the presentation of changes in carrying amount will be required. As a minimum, it will be necessary to consider which changes form part of the period's financial results. This discussion will also help address the concern that it is envisaged that the process will be, in the words of Respondent 32, "attempting to value the government at two points in time and identifying the difference as a measure of performance". The content of any such discussion will obviously differ depending on whether a 'revenue and expense' view or an 'asset and liability' view is adopted in the Phase 2 of the Framework project.

Questions for the IPSASB

1. Do the IPSASB members agree that it would be helpful to identify a measurement objective, and that other bases of measurement should be evaluated in the light of that objective?

2. Do the IPSASB members agree that the ED should explain how its proposals relate to concepts of capital and capital maintenance?

3. Do the IPSASB members agree that the ED should contain a brief discussion of the presentation of changes in the amounts of assets and liabilities?

The choice of specific bases (and combination of bases)

24. As noted above, a majority of respondents who expressed a view on SMC 2 identified a measurement basis or combination of bases that they would prefer. The responses were, however, diverse.

25. No respondent identified the sole use of replacement cost, or replacement cost and market value as their preferred approach. Of the remaining approaches, the classification of preferences was widely spread, as shown in the table below.

Measurement basis	No	%
Historical cost	3	9.0
Market value	1	3.0
Deprival value	4	12.2
Historical cost and market value	5	15.2
Historical cost, replacement cost and market value	5	15.2
Other basis or combination of bases	2	6.0
No clear view expressed/do not consider Framework should be specific	13	39.4
Total	33	100.0
Did not comment	2	
	35	

26. SMC 3 (in summary) asked respondents if they considered the discussion provided in Framework–CP3 balanced and fair. The staff assessment of the responses is that a minority (30%) of respondents thought that it was, while a majority (63%) either thought it was not balanced and fair or had significant reservations. The remaining 2 (7%) respondents have been classified as offering no clear view.

27. Most of those who thought the discussion was not balanced and fair related their comments to specific measurement bases. The relevant points are discussed in the next section.

Specific bases of measurement

28. The following sections of the paper discuss respondent's views on the some of the specific measurement bases. They do not attempt to deal comprehensively with each comment, but rather to highlight the main issues and suggest how they might be reflected in the exposure draft.

Historical cost

29. As is shown in the table at paragraph 25 above, a significant number of respondents (43%) indicated that their preferred measurement basis included historical cost, used either alone or in combination with other bases. Several of these expressed their support for historical cost in strong terms.

30. The main arguments put forward by respondents to support historical cost are:

    (i) Historical cost is simple and verifiable, especially in comparison with current measurement bases;

    (ii) Historical cost provides a link to the transactions actually undertaken by the entity;

    (iii) Historical cost permits comparison of actual and budgeted financial results;

    (iv) Historical cost reports the actual costs incurred in providing services;

    (v) Historical cost provides the best basis for accountability—indeed, some respondents consider that it is the only measurement basis that provides accountability; and

    (vi) Historical cost is used under current practice.

31. There is much validity in the above points, most of which were mentioned in CF–CP3. Staff consider that it is important that these points are carefully evaluated in the ED and the accompanying Basis for Conclusions. (It is beyond the scope of the present paper to attempt that evaluation here).

32. It would appear inevitable that IPSASs will continue to permit or require the use of historical cost in a number of common circumstances, as the alternative current values will lack reliability, or be too complex or costly. It would seem to be important that the ED leave no room for misunderstanding on this point. However, any emphasis on historical cost should not be at the expense of conceptual rigour.

33. It was suggested above that the ED should specify a measurement objective. If that objective requires that the measurement of assets and liabilities should be at a current amount, historical cost could only be used as a proxy for a current measurement. The ED might explore the circumstances in which historical cost might be a suitable proxy for other measures. In addition, the ED might explore whether there is a case for supplementary disclosures relating to historical cost where current values are used. (It is not, however, suggested that the ED should explore every case where there is a case for supplementary disclosure of an alternative measurement basis).

Questions for the IPSASB

1. Is it agreed that the ED should include a full discussion of the advantages of historical cost?

2. Should the draft of the ED explain evaluate the circumstances in which historical cost might be a suitable proxy to be used in the context of a current value objective?

3. Is it agreed that the ED should make clear that it is expected that many assets and liabilities will continue to be stated at historical cost?

Fair value

34. It will be recalled that a difficult issue in the development of the Consultation Paper was to determine how to address the concept of fair value, on which IASB had a current project. In the event, the Consultation Paper hardly referred to the concept of fair value, beyond noting that the current project would provide standards-level guidance. Several respondents questioned the absence from the Consultation Paper of a discussion of the concept. Most of these respondents implied that without such a discussion the paper was incomplete.

35. Fair value is (now) defined in IFRS 13, *Fair Value Measurement* as:

"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

36. The Basis for Conclusions to IFRS 13 explains that the standard was developed to provide consistent guidance for those circumstances where another accounting standard requires fair value. It does not set out a conceptual case for the use of fair value as a measurement basis. Accordingly, the following observations draw on other sources that advocate the use of fair value.

37. One of the objectives of financial statements is to provide users with information to assist them in making decisions about the allocation of resources. These decisions are often to make or withhold investments to which an assessment of future cash flows is highly relevant. Fair values may be presumed to reflect the market's assessment of the amount, timing and risk affecting all future cash flows, and is therefore very relevant.

38. It may be noted, however, that in the public sector the provision of information for investment decisions is only a part of the objective of financial reporting (as is acknowledged in Phase 1 of the Conceptual Framework). In particular it would seem rare for a user to attempt to place a value on the equity of the entity, nor is it clear what use could be made of such a value if it were available. While information relevant to future cash flows is important, the argument that fair value (particularly as assessed from the perspective of the market, rather than the entity)

is the most relevant measurement basis does not seem compelling in the public sector context.

39. Another argument that is often advanced for fair value is that it ensures comparability between different entities that own similar assets. By benchmarking an entity's assets against market values a superior performance is reflected in financial statements when that performance takes place. In contrast, if an asset is stated at a higher amount than fair value, reflecting the entity's ability to secure high returns in the future, those returns are effectively reported before they are earned.

40. The force of this argument depends on the existence of a number of entities that can use the asset in a similar manner, and that the market for assets is sufficiently efficient that asset prices reflect the normal return for the industry. Indeed, IFRS 13 requires assumptions to be made that reflect this perspective, irrespective of whether they actually obtain.

41. Whatever may be the merits of fair value in the commercial sector, the argument seems not to apply readily in public sector. Given that public sector activities are not generally carried out with a view to obtaining a financial return, the relevance of enabling any such return to be assessed in the context of a market setting seems slight. Secondly many public sector assets are specialized: that is they cannot be used for any sensible purpose except by their current owner. The idea of a sale of such an asset is excessively hypothetical when it is known that there are no buyers, except for those who would adapt the asset for another purpose. (This view was set out more fully in the Consultation Paper at paragraphs 3.11-3.13).

42. Staff conclude that there is no conceptual case for using fair value for financial reporting purposes in the public sector, except in the circumstance when the immediate sale of the asset is the most profitable (resource efficient) economic opportunity that is afforded by ownership of the asset. Even in that case, 'fair value' as defined by IFRS 13 would not be appropriate, because it would need to be reduced by the costs of selling, and IFRS 13 (paragraph 25) prohibits adjusting a market price for transaction costs.

43. Staff conclude that it is unlikely that fair value will be identified in the ED as a measurement basis that is widely applicable in the public sector. It is, however, important that the Basis for Conclusions for the ED contain a full discussion of fair value. It will be necessary to explain the relationship of fair value to other measurement bases and highlight the similarities and differences. It will be important to ensure that related concepts, such as market value, may be used. It may also be desirable to take steps to ensure that it is understood that standards may require fair value in order to ensure alignment with IFRSs.

Questions for the IPSASB

1. Do IPSASB members agree that fair value, defined as an exit value has limited relevance in a public sector context?

2. Do IPSASB members agree that the relationship of fair value to other measurement bases should be discussed in the exposure draft?

Deprival value and replacement cost

44. As is shown in the collation of responses, and in the table at paragraph 25 above, only a minority of respondents supported either the deprival value model or a combination of historical cost, replacement cost and market values.

45. Some respondents rejected the deprival value model strongly. For example, Respondent 25 states "We do not believe the deprival value model should be considered by IPSASB".

46. The main objections that were raised against the deprival value model were that of complexity, subjectivity and cost. This may arise at two levels:

- In selecting the measurement basis (replacement cost, net selling price and value in use) that is relevant in a particular case.
- In applying the selected measurement basis (often replacement cost).

47. Some respondents appear to have assumed that the intention was to issue accounting standards (or other mandatory requirements) to the effect that the deprival value model should be applied. This would require complex and subjective judgements to be made at the entity level. However, the principal purpose of the Framework is to guide the development of accounting standards. Thus the selection of the measurement basis would be prescribed by accounting standards, just as IPSAS 26 defines the circumstances in which cash-generating assets are impaired, and the measurement basis to be used.

48. Many respondents highlighted the difficult and subjective judgements that might be required in applying a replacement cost basis. In particular, the difficulties that arise in determining what kind of asset would today be acquired to provide the same service potential as that provided by the existing asset. However, some comments (for example Respondent 2) suggest that replacement cost is used to some extent in present practice, and that practicable means can be found round many of these issues.

49. It is inevitably rather difficult to address practical issues in a conceptual document. The only realistic expectation is that the Framework will note the practical difficulties that will arise in some circumstances. Whether these are severe enough to preclude the requirement of a particular measurement basis is a judgement that must be made at the level of accounting standards.

50. Under the deprival value model, replacement cost is the most widely used basis of measurement. Some respondents view replacement cost as a proxy for market value. In some circumstances replacement cost may be used in that way—indeed this is contemplated in IFRS 13. However, staff also considers that replacement cost may be used as a measurement basis in its own right.

51. It was suggested above (paragraph 19) that the ED should contain a discussion of specific measurement bases and the circumstances in which they may be candidates to be specified in accounting standards. It was also suggested above that the ED should contain a comprehensive Basis for Conclusions. It would be consistent with this line of thought to discuss in the ED itself the principal measurement bases without specific reference to the deprival value model, and to explain in the ED how its proposals relate to that model.

52. Some respondents (e.g. letter #021) suggested aspects of the deprival value model that require further analysis and possibly clarification. These will be addressed in the development of the ED.

53. Framework–CP3 contained a discussion of the 'relief value model', which it describes as an application of the deprival value model to liabilities. Some respondents dismissed it, and there was little support. Few constructive comments were received on the relief value model, other than to suggest that it required further development, particularly in relation to the use of current values.

Questions for the IPSASB

1. Do IPSASB members agree that the ED should discuss the principal measurement bases, and that the relationship of its proposals to the deprival value model should be discussed in the Basis for Conclusions?

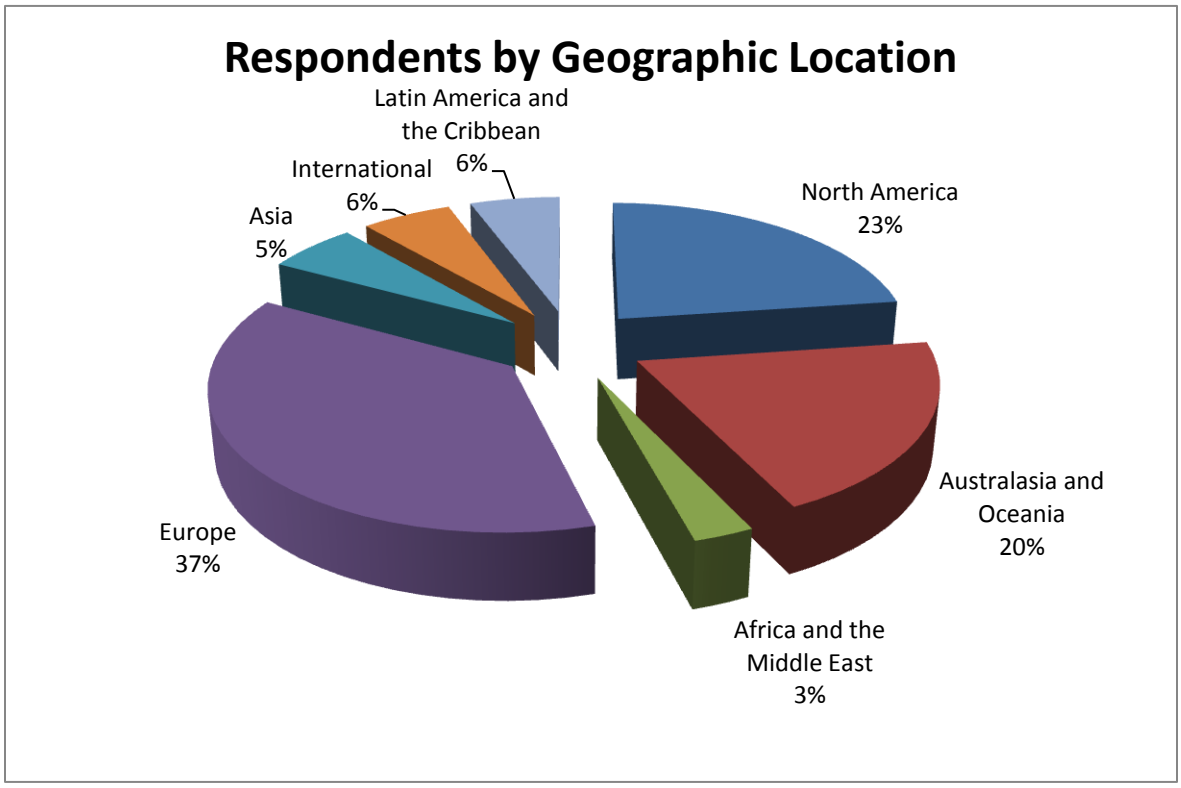
Next Steps

54. There should be a further detailed consideration of issues not decided at this meeting at the December meeting to enable a first draft of an ED to be brought to the March 2012 meeting.

RESPONSES TO Framework CP3- REGION, FUNCTION, LANGUAGE

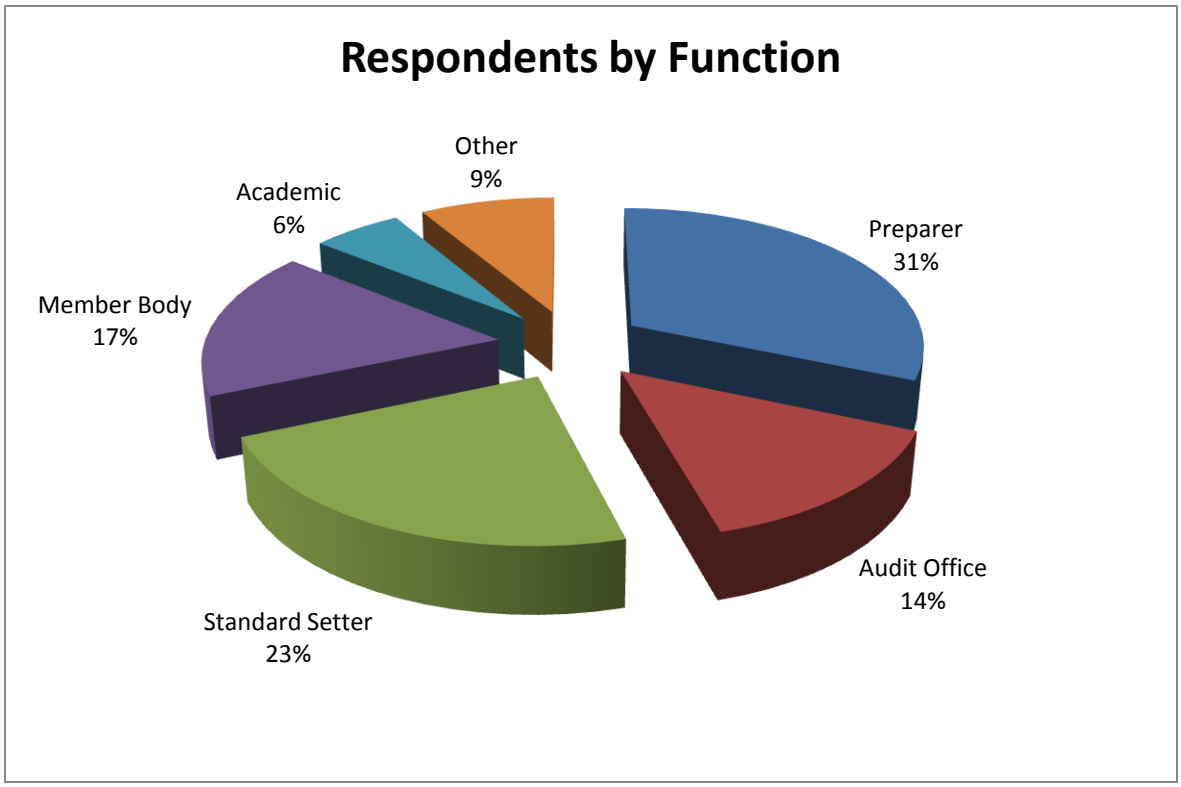
Geographic Breakdown:

Location	Response number	Total
Africa and the Middle East	12	1
Asia	7,33	2
Australasia and Oceania	2,5,20,22,26,28,30	7
Europe	1,4,8,9,11,13,14,15,16,18,19,21,29	13
Latin America and the Caribbean	23,31	2
North America	3,6,17,25,27,32,34,35	8
International	10,24	2
Total		**35**



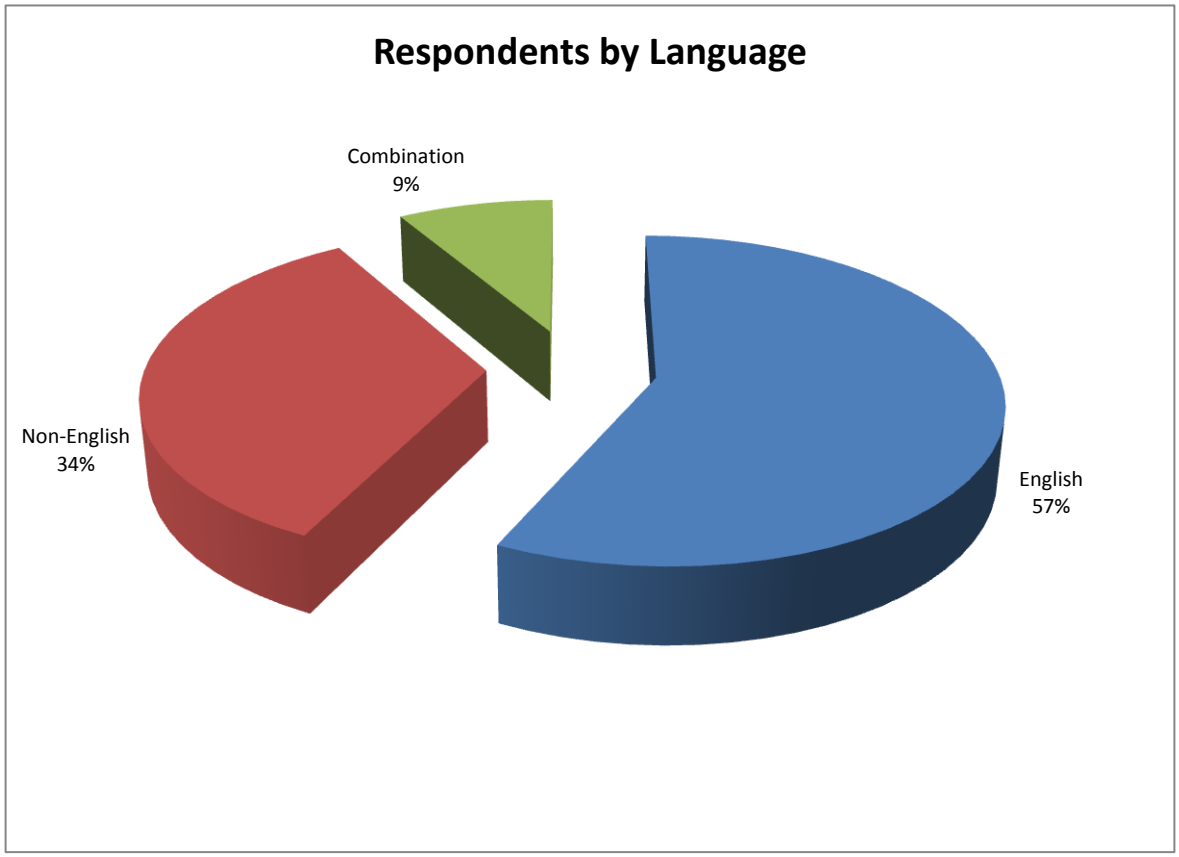
Functional Breakdown:

Function	Response Number	Total
Preparer (Ministry of Finance or similar)	2,3,5,6,14,18,24,25,32,34,35	11
Audit Office	1,15,22,29,30	5
Standard Setter/Standards Advisory Body	4,12,13,16,17,21,26,28	8
Member Body (National or Regional)	7,8,9,19,20,33	6
Academic	11,27	2
Other	10,23,31	3
Total		**35**



Linguistic Breakdown:

Language	Response #s	Total
English-Speaking	2,3,5,6,9,11,12,17,19,20,21,22,25,26,27,28,30, 32,34,35	20
Non-English Speaking	1,4,7,8,13,14,16,18,23,29,31,33	12
Combination	10,15,24	3
Total		**35**



STAFF COLLATION OF RESPONSES TO CONCEPTUAL FRAMEWORK PHASE 3 CONSULTATION PAPER

Purpose:

To present the Staff summary of the comments received on Conceptual Framework Consultation Paper (*CF–CP3*), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*.

(***Note**: This collation includes only key extracts of each response received to the Framework CF–CP3.These extracts have been grouped to identify respondents' views on key issues. In some cases, an extract may not do justice to the full response. This collation should therefore be read in conjunction with the submissions themselves).*

List of Respondents:

Response #	Respondent Name	Country	Function
001	National Audit Office	Malta	Audit Office
002	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
003	Ministry of Finance Ontario	Canada	Preparer
004	Swedish National Financial Management Authority	Sweden	Standard Setter/Standards Advisory Body
005	New South Wales Treasury	Australia	Preparer
006	Provincial Government of Newfoundland and Labrador	Canada	Preparer
007	The Institute of Chartered Accountants of Pakistan (ICAP)	Pakistan	Member or Regional Body
008	Institut der Wirtshaftprufer (IDW)	Germany	Member or Regional Body
009	The Institute of Chartered Accountants of Scotland	UK	Member or Regional Body
010	The International Consortium on Governmental Financial Management (ICGFM)	Supranational	Other
011	Professor Richard Maeve, London School of Economics	UK	Academic
012	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
013	Swiss Public Sector Financial Reporting Advisory Committee	Switzerland	Standard Setter/Standards Advisory Body
014	Direction Générale des Finances Publiques	France	Preparer
015	Wales Audit Office	UK	Audit Office
016	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
017	Public Sector Accounting Board (PSAB)	Canada	Standard Setter/Standards Advisory Body
018	Danish Agency for Governmental Management	Denmark	Preparer

Response #	Respondent Name	Country	Function
019	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
020	Joint Accounting Bodies	Australia	Member or Regional Body
021	Accounting Standards Board	UK	Standard Setter/Standards Advisory Body
022	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
023	Federation of Professional Councils of Economic Sciences (FACPCE)	Argentina	Other
024	United Nations Systems	Supranational	Preparer
025	Government of Canada	Canada	Preparer
026	New Zealand Institute of Chartered Accountants	New Zealand	Standard Setter/Standards Advisory Body
027	Dr. Joseph S. Maresca	USA	Academic
028	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
029	Cour des Comptes	France	Audit Office
030	Office of the Auditor General	New Zealand	Audit Office
031	Denise Silva Ferreira Juvenal	Brazil	Other: Accountant
032	Province of British Columbia	Canada	Preparer
033	The Japanese Institute of Certified Public Accountants	Japan	Member or Regional Body
034	Government of Nova Scotia	Canada	Preparer
035	Comptroller's Division of Manitoba	Canada	Preparer

R#	GENERAL COMMENTS	STAFF COMMENT
002	HoTARAC notes the IPSASB's comment on page 4 of the Consultation Paper that "the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector". However, no reasons have been given as to why the International Accounting Standards Board's (IASB) conceptual framework is so fundamentally unsuitable for public sector entities, that development of a separate conceptual framework for such entities is warranted. HoTARAC believes the IPSASB's "Process for Reviewing and Modifying IASB Documents" is applicable (at least in part) to the development of a conceptual framework – particularly if alignment (to the degree possible) with IFRS is to remain an objective.	IPSASB has not suggested that the IASB Framework is fundamentally unsuitable, but considers it important that public sector characteristics are taken into account in developing a conceptual framework for this sector.
	HoTARAC's preference is that the IPSASB and IASB work more closely to achieve convergence of their respective conceptual frameworks and other pronouncements. Even if this would delay progress from an IPSASB perspective, HoTARAC believes such convergence would result in superior long-term outcomes for public sector entities globally. The greater the potential for divergence between pronouncements applicable to government business enterprises (GBEs) (issued by the IASB) and pronouncements applicable to other public sector entities (potentially issued by the IPSASB), the more significant are the practical difficulties in preparing consolidated financial statements for a whole-of-Government reporting entity. HoTARAC recommends that the IPSASB communicate to constituents how and when it will address this obvious tension between standard-setter frameworks under which various public sector entities might operate.	Noted that IASB has provided a member of Advisory Group and that new IASB representative will be Vice-Chair.
	On page 4 of the Consultation Paper, the IPSASB states it is considering the potential for convergence with the concepts underlying statistical financial reporting models in developing the Conceptual Framework. HoTARAC prefers that the focus instead be on the underlying conceptual merits for general purpose financial statements. However, should the IPSASB identify more than one approach as being suitable, HoTARAC would support selection of that basis that most closely aligns with the GFS statistical model.	Noted. Project on harmonization with GFS has just been initiated. 'Harmonization' does not connote convergence in all circumstances and the different objectives of statistical accounting and IPSAS-based accrual accounting mean that full convergence is not likely.
	HoTARAC notes that the IPSASB's Conceptual Framework project is stated as applicable to general purpose financial reporting (which is a wider concept than general purpose financial statements). However, the IPSASB's Consultation Papers for Phases 2 and 3 of this project	Noted. Timetable has to some extent

R#	GENERAL COMMENTS	STAFF COMMENT
	appear to more directly relate to general purpose financial statements. Further, in light of the IPSASB's arrangements for release of separate documents for each phase of its Conceptual Framework project, HoTARAC would prefer more clarity about how the finalised Conceptual Framework documentation will be issued e.g. will it be issued as – • one inter-connected document with self-contained chapters for particular matters (e.g. elements and recognition, measurement etc); • one document setting out the over-arching principles – which HoTARAC presumes relates to Phase 1 - with separate documents that deal with specific aspects (e.g. elements and recognition, measurement etc) but which are all subject to the over-arching principles; or • some other arrangement. Since some Conceptual Framework concepts (like measurement) could be applied beyond the boundaries of general purpose financial statements, HoTARAC recommends that the IPSASB clarify the application of all phases (particularly Phase 1) of its Conceptual Framework. HoTARAC strongly recommends that the IPSASB's Conceptual Framework (as the term implies) be restricted to high-level principles that are appropriate to reporting by the broad range of public sector entities. HoTARAC believes that issues relating to the practical application of those high-level principles only be dealt with in IPSASs. HoTARAC also recommends that the IPSASB clearly communicate to constituents how and when the eventual outcomes of the IPSASB's conceptual framework project will be reflected in existing IPSASs, to ensure consistency across all IPSASB pronouncements.	dictated narrower focus of Phases 2 & 3. Noted. See Coordinator's Report (Agenda Item 4.1) on whether there should be exposure of a full ED covering all phases. Noted and agree. IPSASs do not just cover sovereign governments, but a wide range of public sector entities. Following completion of Framework existing IPSASs will be evaluated against framework and a structured program undertaken to revise Standard based on a prioritization of needs This will take a number of years.
003	In our response to the specific questions in the Consultation Papers and the Exposure Draft on the conceptual framework, the following key issues appear: 1. The IPSASB conceptual framework needs to specifically address the role of government and the accountability it has to the public. The conceptual framework needs to acknowledge the existence of constitutional and legislative structures that exist which can impact how governments should report. 2. The IPSASB conceptual framework should be limited to supporting the preparation	Noted. IPSASs do not override legal requirements. Noted, see Phase 1.

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	of General Purpose Financial Statements (GPFS) that meet the informational needs of the general public and not try to encompass broader financial reporting. 3. The conceptual framework should recognize and support the financial accountability relationship governments have to the public, and not try to change the relationship by implementing a sector neutral approach for financial reporting. 4. The public sector in Canada is driven by balanced budget concepts and delivering appropriate services to the public, and not the accumulation of equity or profit maximization. As a result a revenue/expense approach to measuring government performance aligns best with the objectives of GPFS users in the public sector. 5. The primary users of public sector financial statements need clear and understandable information to gauge a government's performance against approved budgets. GPFS are a cornerstone in accountability reporting showing how the government balanced inflows with outflows of resources. Historical cost provides reliable measurement and faithful representation of government's use of resources, and supports the accountability relationship the government has with the public. The historic cost basis of measurement is required to produce reliable accountability reporting on the way the government has fulfilled their duty to the public. The accountability relationship between the government and the public is related to managing expenses for delivering services within the revenues available, and not the accumulation of value on the balance sheet. As a result, any basis of measurement but historical cost would not be aligned to the role of government.	No intention to introduce a sector neutral approach, although noted that some respondents favor such an approach . Noted. Issue primarily relates to Phase 2. Noted, although Staff considers that some of these assertions are contestable. For example, there is a body of opinion that faithful representation militates towards 'fair value'. Whilst staff does not accept that only historical cost measurement promotes accountability it is agreed that the issue should be discussed in the exposure draft. See discussion of historical cost in covering memorandum.
004	We hope the comments given will be useful in your continuing work. We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards and a framework for financial reporting.	Support noted.
005	While NSW Treasury supports development of the Conceptual Framework by both the IPSASB and International Accounting Standards Board (IASB), we strongly recommend that the IPSASB does not progress the IPSASB Measurement Consultation Paper (CP) until the IASB / Financial Accounting Standards Board (FASB) Conceptual Framework Phase C	The IPSASB decided to prioritize the Conceptual Framework project in December 2009. At that time it was acknowledged that this would mean

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	Measurement is complete. We strongly believe that a CP on the measurement of assets and liabilities is best first undertaken by the IASB. The IPSASB should then determine whether there are any not-for-profit specific reasons as to why these conclusions are not appropriate for the public sector. We note that "the development of the IPSASB Conceptual Framework is not an IFRS convergence project", but that the IPSASB is "closely monitoring the development of the IASB's Conceptual Framework". However, the reason for not treating this as an IFRS convergence project is not explained or supported. Therefore, we encourage the IPSASB to proceed consistent with its document *'Process for Reviewing and Modifying IASB Documents'* (October 2008). NSW Treasury believes that the IPSASB should work closely with the IASB with the objective of maximising convergence between the two Frameworks and the Accounting Standards. To do otherwise will invariably increase the risk of creating a wedge between the two Frameworks and resulting accounting standards, that will become increasingly difficult to reduce and even more difficult to eliminate. Further, we believe that maximum convergence between the IPSASB and IASB is in the interests of the integrity of the accounting profession and the usefulness of its accounting standards in the global economy. Any action that increases the risk of unnecessary divergence should be avoided. NSW Treasury is also concerned that the CP Executive Summary envisages "that the IPSASB Framework will identify factors that should be considered in choosing the measurement basis to be required for *particular* assets and liabilities in specific circumstances" (italics added) (para 1.5). The CP does not adequately explain or demonstrate why the IPSASB reached this conclusion rather than trying to identify a single measurement basis that is appropriate in all circumstances. Instead, the CP signals to a reader that the conclusion will be argued for, instead of rigorously evaluating the alternatives. It also presumes that a mixed measurement will continue. We believe that the objective of a Framework document should be to conclude on a single measurement basis, even if this is only as an ideal that can only be achieved in certain circumstances, for example, where there is an active market. This can be attempted by critically evaluating each alternative measurement basis against the objectives of financial reporting and the qualitative criteria for information to be useful for decision-making. In this	that, in a number of areas, the IPSASB would be developing proposals in advance of the IASB. In 2010 the IASB's focus on FASB MoU projects meant that the IASB did not progress a number of Phases, including Phase C: Measurement. The IPSASB has been clear that the conceptual framework is not a convergence project and therefore the document *Process for Reviewing and Modifying IASB Documents'* (rules of the road) is not relevant to it. In due course, the completed Conceptual Framework will supersede the rules of the road. The preference for maximum convergence is noted. Issues of (a) identification of a single measurement basis and (b) discussion of concept of capital are addressed in Memorandum (Agenda Item 4D.0).

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	regard, NSW Treasury is concerned that even if the limited scope of the CP is accepted (i.e. based on measurement for particular assets / liabilities), the CP does not critically evaluate each measurement basis, in a structured and rigorous manner. Therefore, we do not believe that the CP is sufficient to satisfy its stated objective. In addition, we note that the concept of capital is mentioned and linked to measurement bases. However, the concept of capital is not fully explained as being a driver of measurement bases, which therefore undermines the likelihood of reaching a valid conclusion on a desirable measurement basis. Finally, in NSW Treasury's view, we believe that the CP is difficult to follow, as it mixes terminologies and confuses features, measurement bases, valuation techniques and proxies (e.g. market value versus fair value; replacement cost vs market value). Given this, we do not believe that the CP can reach valid conclusions. *An appendix to the response contains an extract from a policy paper that argues that there is no material difference between fair value and deprival value.*	
008	As stated in our letter dated June 10, 2011 on the Exposure Draft of phase I of the IPSASB's Conceptual Framework project, the IDW recognizes that there is a distinct need for a conceptual framework for general purpose financial reporting by the public sector. We continue to believe that, as stated in our letter to you dated 31 March 2009, the discussion is of fundamental importance for the future development of International Public Sector Accounting Standards. In the aforementioned letter, to which we refer, we also stated our support for the IPSASB in now concentrating significant resources on bringing this important project forward, but expressed our concern as to whether the IPSASB's timetable may be overly optimistic, as it would essentially mean that the IPSASB would complete the project independently – and thus likely ahead – of the IASB's Conceptual Framework Project. Indeed, in respect of this phase of the project we also accept that differences between the public and private sector will need to be addressed, but nevertheless believe that at a conceptual level there are likely to be significant areas of common ground between the two sectors, and therefore also urge the Board to confer with the IASB on the issues dealt with in this phase of the project prior to finalizing the project as a whole.	Noted. Staff acknowledges that the timetable is very aggressive, although there has been some slippage as a result of the fact that the Phase 4 Consultation Paper was not approved in September. IASB Staff was consulted throughout development of the Consultation Paper. However, due to other priorities the Measurement phase of the IASB's Conceptual Framework project is in abeyance. In developing an Exposure Draft Staff will monitor and evaluate IASB developments and proposals on Phase C of IASB's Conceptual

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	For example, whilst there may be public sector specifics that mean the selection of different measurement bases for a particular element would be different from the private sector, the bases that are hitherto available are unlikely to differ. It remains to be seen whether in the future further possibilities will evolve for measurement within either sector compared to the other. Having said this, we believe the IPSASB has posed the right questions to gain insight in to the views of its constituents. We include our responses to the Specific Matters for Comment in an appendix to this letter. However, we would also like to question why fair value has not been given more attention as a measurement basis in the discussion in this phase of the project, particularly as the IPSAS dealing with financial instruments require fair value to be used, and we suspect that when such instruments are held for trading there is no real difference whether the entity holding the asset is within the private or the public sector. A discussion of the merits and disadvantages of fair value would seem to be appropriate in this phase of the Framework.	Framework project. See Memorandum (paragraphs 34-43) for discussion of fair value.
009	While we understand that the IPSASB conceptual framework project is not a convergence project, we would support a Conceptual Framework for public sector entities which only departs from the IASB's Conceptual Framework in areas where there is a clearly justified public sector specific reason for doing so. The timing of the IPSASB project means that key decisions about the Conceptual Framework may be made in advance of commentators' deliberations and IASB decisions regarding its developing Conceptual Framework and as such there may be a risk that the IPSASB Conceptual Framework does not fully reflect these wider deliberations. We would therefore prefer publication of an exposure draft by the IPSASB on the measurement of assets and liabilities in financial statements to include consideration of any material published by the IASB in relation to Phase C of its conceptual framework project on measurement. However, we understand that the IASB has indicated that no further action will be taken on the measurement aspects of its project until at least December 2011.	Noted. See above. In developing an ED Staff will monitor and evaluate IASB developments and proposals on Phase C of IASB's Conceptual Framework project.
010	The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultative Paper on Measurement of Assets and Liabilities in Financial Statements. We are pleased to see the IPSASB move forward in developing the conceptual framework.	Support noted.

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011	This response consists of two academic contributions: "Comment letter on IASB Discussion Paper: *Credit Risk in Liability Measurement*" and "'Deprival Value' Vs 'Fair Value' Measurement For Contract Liabilities In Resolving The 'Revenue Recognition' Conundrum: Towards A General Solution'"	
013	No fundamental comments on the Consultation Paper.	Noted.
014	We welcome the decision of the Board to issue a consultation on the elaboration of a conceptual framework for public entities. Within the framework of the fulfilment of its sovereign missions and its missions of economic and social regulator, the public sector's assets and liabilities present specificities which have no equivalent in the private sector. It results from it the application of adapted valuation methods. It is the case for example of certain infrastructures for which there is no market value and that are estimated at the replacement cost. Besides, these missions joining a long-lasting frame, the purchase price of assets is not always known. We can quote as, for example, the value of historic monuments and some works of art. Furthermore, it is advisable to remind that the major part of the activities of the public sector is of not trade character. Consequently, the market value seems unsuitable in most of the cases, as far as the public sector does not aim to sell its assets and its liabilities.	Staff accepts that these are characteristics of the public sector that need to be taken into account in developing a framework. Many of these points were highlighted in the ED, *Key Characteristics of the Public sector with a Potential Impact on Financial Reporting.* Agreed. Agreed.
016	The CNOCP particularly welcomes the detailed examination of the needs of the users of financial statements and of the objectives of the latter, as well as of the general approach to preparing the accounts, and of the consequences of the previously mentioned choices for the selection of measurement bases. The Consultation Paper, which is a basis for discussion, sets out the different possible measurement bases applicable in the financial statements - historical cost, market value, replacement cost - and presents the deprival value model approach, as well as combinations of these bases and approaches. The CNOCP has examined the different measurement bases in the light of the choices made in the first two consultation papers, taking into account their relevance for the public sector. The CNOCP has expressed a preference for the revenue and expense-led	Staff notes this Respondent's preference for historical cost and also acknowledges the point that there may be instances where historical cost cannot be easily obtained. View that deprival value approach is too complex is acknowledged (see memorandum)

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	approach in its reply to the first Consultation Paper of the IPSAS Board. In order to be consistent in the reply to the second paper, it indicates that the historical cost basis is considered the preferential method for public entities, but also points out the possibility to apply to other bases according to the elements to be measured. The historical cost basis leads to measurement at acquisition cost at the date of initial recognition by an entity. In France, its use is widespread in the accounts of Central Government, public establishments, local authorities and social security organisations. This basis has the advantage of being simple and meets the objectives of users of financial statements (identified in the exposure draft for phase 1). In addition, this is the basis used by public entities for the long-term management of their assets. Where it is not possible to apply the historical cost basis, it is however possible to use other bases for measuring an asset, such as market value. Lastly, if the preceding bases are not suitable, replacement cost may also be used. On the other hand, the CNOCP considers that deprival value is particularly complex and in addition refers to notions of net selling price and value in use which are not considered appropriate for the accounts of Central Government and public entities.	
017	Thank you for the opportunity to offer our perspectives on the proposals in this Consultation Paper (CP). We would like to express our support for this important effort and we hope our comments will contribute to advancing it. Ultimately all aspects of a new Framework should display an integration of thought and purpose. For this objective to be met, perspectives on measurement need to demonstrate a strong linkage to the other Concepts papers. We do not believe this has been entirely overlooked, as the Consultation Paper expresses perspectives on the needs of users and application of concepts of capital, but from our perspective there remains an evident disconnect on the second point. Publication of the Consultation Paper and deliberation of the comments received will no doubt advance this process. Our view is that the needs of the users and the application of the qualitative characteristics described in CF ED 1 leads us to conclude that generally speaking, financial information based on current facts and circumstances is preferable to that which is historic. We believe this view should be expressed. Such a view can be consistent with a mixed measurement model as application of the qualitative characteristics and their constraints	The preference for current value is noted.

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	provide ample ground to measure items based on historical cost when those measures provide useful information (an example being short-term amounts receivable expressed at cost less an allowance for doubtful accounts). An implication of adopting the perspective that current information is more useful is that the information provided supports broadly-based measures of accountability. In Canada, PSAB is undertaking to review concepts underlying financial performance. This review will in part focus on the aspects of financial performance that are important to users and whether these conclusions have implications for the underlying Concepts that guide general purpose financial reporting. Within our constituency, recent standard setting proposals have prompted an active debate about the role of financial statements play in communicating measures of financial performance. Some hold the view that the Concepts should promote accountability primarily in relation to the budget plan adopted by the legislature. Others seek ensure general purpose financial statements support broader notions of accountability. General purpose financial statements provide information to a broad range of users. It is our view that users seek information that is useful to the judgments they seek to make. Consequently, they will assess performance in relation to their own criteria. Section 2 within CF ED 1 acknowledges these varying information needs. It is relevant to note the acknowledgement given in paragraph 1.2 to the bases used for statistical purposes, a basis grounded on measuring performance in relation to economic flows, based on current entry values. Prior to the finalization of the measurement paper, aspects of the elements and their recognition paper will need to be integrated. In this regard, it is our view that separate elements or sub-components of elements should not be introduced in an effort to overcome repercussions arising from measurement. This view is asserted given an expectation that the introduction of elements to support deferred outflows and deferred inflows would add complexity or in some way diminish the transparency of the information added by measuring items based on information that reflects current economic events and conditions. On the other hand, to be consistent with our view that users refer to general purpose financial reports to assess performance in relation to their own criteria, we support presentation approaches that may be useful in demonstrating accountability in a manner	Need for consistency with Phase 2 noted. Framework Consultation Paper 2 did not provide a preliminary view on additional elements for deferred inflows and outflows, but did raise the option of such additional elements.

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	that supports a common need and promotes comparability between entities in the public sector. When trade-offs between competing needs must be made, it is hoped that they would not limit the information that is available unless it is determined that the benefit a user might gain from current information cannot be justified in relation to its cost, affect on timeliness or it is simply not material. The paper gives prominent attention to the deprival value model, advocating it as "a rationale by which a specific basis may be selected as the most relevant in specific circumstances." Deprival is consistent with the view expressed here that current information is favoured as being more useful. A consequence of adopting deprival value is that it can require that the measures be entity specific. Paragraph 1.7 highlights this concern when it states "the use of values that use an entity-specific perspective is that they reflect the intentions or expectations of the entity or its management and so are subjective and lack verifiability and comparability." Most susceptible are capital assets as deprival value requires that the replacement cost, value-in-use and net selling price be measured for each asset. Many capital assets are unique or specialized in some way. In the public sector there is the added complexity of assessing this information in relation to an asset's service potential. In our view, measures of replacement cost and value-in-use based on an asset's service potential may vary from measures based entirely on future cash flows. While maintaining three values for each asset would add to the work effort, this is not the principal reason we are not yet ready to embrace deprival value. In Section 4 of CP 2, two approaches to reporting financial performance are presented. The revenue and expense led approach attributes the costs of services to the period in which the services are provided, and attributes tax and other revenue to the period in which they were intended to finance the related costs. The alternative model presented is the asset and liability model which subordinates the reporting of revenues and expenses in terms of changes in assets and liabilities. In preparing and presenting these papers independently, what seems to have fallen between the cracks is the broader question of identifying what is the most meaningful representation of financial position and the changes in that financial position for a public sector entity. In addition to settling on one of the two approaches described in CP 2, consideration needs to be given to the concept of capital that should apply. This is at the	See discussion of capital maintenance in Memorandum (paragraphs 21-23).

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	heart of resolving the question about what are public sector entities measuring when they are measuring performance. Public sector entities are consumers of capital by way of borrowing or taxation. Consequently it is of fundamental interest to determine whether surplus or deficit is measured in relation to operating capacity or in purely monetary terms. We are not yet ready to answer to this question but believe it needs to be debated. If a clearly enunciated view could be expressed, it might be easier to resolve how this view should be enabled. As well, it might contribute to greater stakeholder engagement. There is the perspective of those who use the information generated by the financial reporting process to maintain statistics. These users seek a neutral presentation that reflects economic flows. At the other end of the spectrum are those who view general purpose financial reports as being limited to demonstrating accountability in relation to the program spending and funding requirements set out by a government's policy makers. If it is determined that general purpose financial statements should report on the stewardship of the tangible assets by measuring whether the capacity to deliver service has been maintained, deprival value may well be a valuable enabler. Does the IPSASB have a view on whether a general purpose financial report is some or all of these things? We appreciate the opportunity to comment on this Consultation Paper. We are very supportive of IPSASB's conceptual framework initiative and wish you success in integrating this piece of the framework with the other phases and the key characteristics document.	
018	Generally, the Danish Agency for governmental management agrees to the idea for making guidelines to the measurement of assets and liabilities. In relation to the measurement of assets and liabilities however, the Danish Agency for governmental management finds it important to underline, that you should only include assets and liabilities on a measurement basis in financial statements to the extent that it gives a better basis for economic management. At the same time you must consider whether costs by making a precise and complete measurement commensurate with the benefits associated with such practices. Also, it is the opinion of the Danish Agency for governmental management that measurement as far as it is possible should be based on objective standards to secure that all	Staff does not agree that the main objective of the financial statements is to provide a better basis for economic management. The focus of the financial statements should be on external users.

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	operate with the same guidelines. The use of objective standards is also important for appropriation management. Similarly a sensible comparison of each company's accounts assumes an application of objective standards.	
020	CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the IPSASB Conceptual Framework (CF) Consultation Paper (CP) Measurement. The Joint Accounting Bodies preferred approach is for an international reporting framework comprised of a single set of concepts designed for application to all sectors. However, we acknowledge that this is not the way that standard setting internationally is structured today. Nevertheless, we encourage the IPSASB to continue to initiate dialogue with the Trustees of the IFRS Foundation about the imperative for action to expand the objective of the IASB to develop a single set of accounting standards appropriate for all sectors. The Joint Accounting Bodies will continue to make such representations nationally and internationally. The Joint Accounting Bodies consider the completed conceptual frameworks of the IPSASB and the IASB/Financial Accounting Standards Board (FASB) will represent international best practice for entities of the public sector and the private for-profit sector respectively. However, the journey to completion is not proceeding contemporaneously. The IASB/FASB has decided to not proceed yet with a discussion paper on measurement. We believe it appropriate that the IPSASB has exposed its thinking on this topic. However, we are concerned that differences in the decisions of the IPSASB and the IASB/FASB (when they eventually get to this topic) *may* prove problematic for transaction neutral jurisdictions like Australia should jurisdictions choose to maintain the approach of one set of standards and at the same time ensure that international investors understand that the financial reports of for-profit entities accord with the International Financial Reporting Standards (I FRS). To militate against the risk of this outcome, we encourage the IPSASB to maintain dialogue with the IASB/FASB on this topic and other conceptual framework topics.	The need for the maintenance of dialogue with IASB is acknowledged, as are the implications for jurisdictions with a sector neutral approach.
021	1. We welcome the opportunity to comment on the above Consultation Paper. 2. We support the objective set out in paragraph 1.5 of the Paper of developing a Framework that identifies factors that should be considered in choosing a measurement basis, rather than seeking to prescribe a measurement basis (or bases) to be used in all circumstances. In our view, this approach is likely to be the most helpful developing	

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	standards that can be applied to give the most relevant information in the particular circumstances, having regard to the reliability of the selected measurement basis. 3. We accept that current values are sometimes more relevant than historical values. In particular, current values are necessary to provide relevant information for an assessment of accountability, as they provide information on the current opportunities open to an entity to redeploy assets that may have relatively low historical cost. However, in our view the Framework should recognise that in some cases historical values are likely to offer the best balance of relevance and reliability. A particular advantage of historical cost is that it provides a direct link to the actual transactions undertaken by the entity, which is sometimes obscured when current values are used. 4. We particularly welcome the discussion of general features of measurement bases set out in paragraph 1.7. In particular, we consider entity-specific measures are likely to be more relevant than market values, where market values are not readily available and are estimated on hypothetical assumptions. We also note that such estimated market values may introduce unwarranted and false volatility into the financial statements. 5. We think the paper provides a fair and reasonable summary of the measurement bases that it addresses. However, the Paper would have benefitted from the inclusion of a discussion of the concept of 'fair value' as set out in IFRS 13 *Fair Value Measurement*, which would explain its relationship to other measurement bases, in particular market value. 6. We also encourage the IASB and IPSASB to work together on aligning their respective conceptual frameworks, unless there is good reason to diverge. As the IASB has not yet tackled the issue of measurement, we would encourage the IPSASB to share their experience and thinking with the IASB.	See Memorandum (paragraphs 34-43) on need for greater consideration of 'fair value'.
022	ACAG would like to draw the IPSASB's attention to the proposed conceptual model included in our response to the IPSASB's consultation paper '*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*'. This model included proposed measurement bases for each element and an explanation for those choices.	Noted.
024	The Task Force appreciates the work that the IPSASB is carrying out in developing	The Consultation Paper noted the

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	accounting standards for public sector entities and international organizations such as those making up the United Nations System. The Conceptual Framework Consultation Paper Phase 3 is an important development since it is part of a series of the expected consultations papers and exposure drafts of the IPSASB Conceptual Framework. The Conceptual Framework is envisaged to make explicit the concepts that are to be applied in developing IPSASs and other documents that provide guidance on information included in general purpose financial reports. All United Nations System organizations are looking forward to the development and finalization of the IPSASB Conceptual Framework. **General Comments** We support the IPSASB efforts in developing the Conceptual Framework and have the following general comments pertaining to our understanding of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*: *Measurement of Assets and Liabilities in Financial Statements (*Consultation Paper*)*: The Consultation Paper recurringly refers to faithful presentation of the value of the asset when considering various measurement bases, especially market value basis. However, value of the asset is not an absolute dimension and can vary significantly based on what party it is assessed for. Whether it is (a) a value of the asset for the public sector entity which owns it, or (b) a value of the asset for the reporting entity that uses it, if different from owner, (c) a value of the asset for the users of GPFS, or (d) a value the asset to other comparable reporting entities, which might be applicable in the context of using information from deep liquid markets, it is not always apparent how a value of the asset is positioned in the discussion and this may need to be further clarified when the Consultation Paper progresses to draft Exposure Draft.	reservations of some over entity-specific values and that entity-specific values differ from pure market values.
026	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.	Need for greater focus on measurement objective noted.
028	**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	Staff accepts the notion of transaction neutrality, but does note that, in a small number of cases, there can be a difference of opinion

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	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***	as to when transactions are the same. See Coordinator's Report for a discussion of whether an ED of the full Framework should be issued prior to finalization. Staff notes that issuance of such an ED will have major implications for the timetable.

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	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.	See Memorandum (paragraphs 11-20 and 21-23) for discussion of identification of a single measurement model and concepts of capital and capital maintenance.
030	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.	See Memorandum (paragraphs 11-20 and 21-23) of measurement objective and concepts of capital and capital maintenance.
031	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,	Jurisdictional differences require the development of approaches not-tailored to a specific model of government.

R#	GENERAL COMMENTS	STAFF COMMENT
	different forms of government and different institutional and administrative services.	
032	<u>The Objectives of Financial Reporting</u> 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. 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. <u>Objectives of this Consultation Paper</u> 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." 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.	The views on objectives and primary users relate to Phase 1.See materials in Agenda Item 4. See Memorandum (paragraphs 11-18 and 21-23) on a single measurement basis.

R#	GENERAL COMMENTS	STAFF COMMENT
	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.	See discussion of 'Reporting changes in the amounts of assets and liabilities' in the memorandum. Preference for revenue and expenses-led approach noted.

SMC 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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) AGREE THAT ROLE SHOULD BE TO IDENTIFY FACTORS RELEVANT IN SELECTING MEASUREMENT BASIS IN SPECIFIC CIRCUMSTANCES	**23 (72%)**
(B) DISAGREE AND CONSIDER THAT FRAMEWORK SHOULD SPECIFY A SINGLE MEASUREMENT BASIS OR COMBINATION OF BASES	**6 (19%)**
(C) NO CLEAR VIEW EXPRESSED	**3 (9%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**32 (100%)**
(D)DID NOT COMMENT	**3**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
001	A	The role of the Framework is 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 specification of a measurement basis of assets and liabilities in financial statements should be the prerogative of individual Standards. Alternatively, the Framework is to specify all measurement bases and concept and state that historical cost is the most commonly adopted basis in combination with other bases.	
002	B	HoTARAC acknowledges the references in section 1 of the Consultation Paper to various concepts of capital, and the articulation of which concept of capital relates to each "measurement basis" as described in the paper. However, HoTARAC considers it would be far more effective for the IPSASB to first discuss each concept of capital (and/or capital maintenance) in some detail and articulate which one, in its opinion, is most relevant for the measurement of assets and liabilities by public sector entities. Such strategic discussion is fundamental to decisions about measurement bases and, accordingly, should have prominence in the Framework. This discussion should also clarify whether there are other objectives of measurement (e.g. to facilitate general user "understandability", comparability between private sector and public sector entities – particularly for those entities providing similar services e.g. schools, hospitals, transport - etc). Following on from that, in addition to describing the underlying factors for selecting a	See discussion of concepts of capital maintenance in Memorandum (paragraphs 21-23).

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		measurement basis for assets and liabilities, HoTARAC believes the Framework should also articulate its opinion of the single ideal measurement basis, to achieve consistency across financial statement items and comparability between entities across jurisdictions. Taking the lead in this way will, in HoTARAC's view, elicit more meaningful future input from constituents by focusing attention on this crucial aspect of financial reporting.	
003	B	It is Ontario's position that the Framework should specify a single measurement basis for assets and liabilities, which is primarily historical cost, as this best reflects the reality of the public sector environment and supports quality financial reporting that meets user needs. The introduction of alternative bases of measurement would introduce unnecessary and inappropriate complexities into government financial reports which would not be easily understood by the general public users of GPFS, thus reducing the transparency and accountability of government reports. Allowing a choice of basis of measurement could result in inconsistent choices by different jurisdictions and public sector organizations, impairing comparability and consistency. It would also adversely impact accountability in public sector financial reports, as alignment between fiscal policy frameworks (where summary budgets and estimates are based on historical cost) and historical financial reports would be eroded. Specifying historical cost as the appropriate measurement is generally consistent with the Public Sector Accounting Board's (PSAB) current conceptual framework, with the exception of impairments of cash generating financial assets or financial instruments. While PSAB has recently finalized its financial instruments standard, the new requirements recognize the importance of retaining the integrity and consistency of the statement of operations to achieve transparency and accountability in public sector reporting, and the importance of faithful representation in public sector financial reports. As a result, all unrealized gains and losses for financial instruments are reported in a separate statement that does not impact the statement of operations. Since governments do not operate in a speculative manner, and actual-to-budget comparisons are an important accountability mechanism for the public, PSAB's approach recognizes the importance of the yearly surplus/deficit measure and reports the gains/losses separately outside the statement of operations. Ontario supports unrealized gains and losses for the public sector to be reported in the notes to the financial statements.	See discussion of historical cost in Memorandum (paragraphs 29-33). Whether a choice should be permitted is a matter for standards, working within the Framework. See discussion of historical cost in Memorandum (paragraphs 29-33). .
004	A	In our opinion the role of the Framework should be to identify relevant factors. In that	

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		perspective we find additional factors relevant which we discuss later, see matter 2.	
005	B	As discussed in the covering letter, NSW Treasury has serious concerns that the CP Executive Summary envisages "that the IPSASB Framework will identify factors that should be considered in choosing the measurement basis to be required for particular assets and liabilities in specific circumstances" (para 1.5). This therefore presumes that mixed measurement will continue. However, no reasoned argument for this vision is demonstrated or explained. Instead, it signals to the reader a conclusion has been made (i.e. to identify factors in choosing the measurement bases for *particular* assets and liabilities), that will be argued for, instead of rigorously evaluating the merits of alternative views. Conversely, we believe that the objective of a Framework document should be to conclude on a single ideal measurement basis, even if this is an ideal that can only be fully achieved in certain circumstances, for example, in an active market. This can be attempted by critically evaluating each alternative measurement basis against the objectives of financial reporting and the qualitative criteria for information to be useful for decision-making. The CP very briefly refers to the objective of financial reporting for accountability and decision-making and the qualitative characteristics of information (refer paras 1.15 to 1.18). It then very briefly discusses historical cost, market value and replacement cost. This is followed by a lengthy discussion of deprival value in a separate chapter. We are therefore concerned that the CP does not critically evaluate each measurement basis against the relevant qualitative criteria (which are noted at para 1.18) in a rigorous and structured manner. Therefore, even if the limited scope of the CP is accepted, we do not believe that the draft is sufficient to choose a preferred model. The fact that, in practice, substitutes or proxies may need to be obtained for a measurement basis (and in individual accounting standards) does not deny that the ideal can be articulated. To simply state that "there is no single measurement basis that is appropriate in all circumstances" (para 1.5) misses the point of a Framework document, which should be conceptual in nature and which should attempt to outline an ideal. Further, articulating an ideal measurement model in the Framework should not preclude also including guidance that may assist in choosing between measurement bases in specific circumstances, in the absence of being able to apply a single measurement basis. This would at least allow for the development of an improved mixed measurement model, as a	See discussion of a single measurement basis Memorandum (paragraphs 11-20).

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		precursor to applying an ideal model in all circumstances. In selecting the ideal measurement basis, we also believe that the IPSASB should start with, or at least include, a rigorous evaluation of the various concepts of capital, which can be seen as the driver of the different measurement bases. However, as discussed in the covering letter, we nevertheless believe that this analysis is best first undertaken by the IASB. The IPSASB's role should be to determine whether there are any not-for-profit specific reasons as to why these conclusions are not appropriate for the public sector. NSW Treasury also notes that the CP states that "…it is desirable for the measurement bases used in financial statements to be consistent with those used for statistical purposes" (para 1.2). Further, the IPSASB's 'At a Glance' publication of December 2010, more strongly states that "the IPSASB is committed to minimising divergence from the statistical financial reporting models." We are concerned that the IPSASB makes such statements, without any justification and without similarly stating that it is desirable for the IPSASB measurement bases to be consistent, to the maximum extent possible, with those used by the IASB. Similarly, we find it concerning that the CP refers to the IVSC definition of market value (refer para 3.2 of the CP), but does not include reference to the definition of fair value in the academic literature and IASB framework and accounting standards.	See discussion of concepts of capital in Memorandum 4D.0 (paragraphs 21-23). . See discussion of fair value in Memorandum (paragraphs 34-43).
006	B	It is our position that IPSASB's conceptual framework should reflect a single measurement basis and that basis should be historical cost. The proposals appear to suggest that the IPSASB has a preference toward identifying factors that should be considered in choosing a measurement basis for particular elements in specific circumstances, rather than identifying a single measurement basis. However, it is our view that financial statements that are prepared primarily using the historical cost basis of measurement more appropriately reflects the public sector. In this regard, while it is considered appropriate that a market value could be used in limited circumstances, it should reflect the essence of the Public Sector Accounting (PSA) Standards which indicates that "transactions and events are recognized in the financial statements at the	For PSAB's position, refer to

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place". Therefore, the measure of fair value or market value is in relation to determining an initial cost not a revaluing perspective.	Response 17.
007	A	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 specify a single measurement basis or combination of bases.	
008	A	Yes, the Framework should provide a sound basis to guide standard setters – and in the absence of a standard on a particular issue preparers – in identifying factors that are relevant in selecting a measurement basis for particular assets and liabilities, and also items of income and expenditure, in specific circumstances that can provide the most useful information for decision makers. Standard setters should thus refer to the Framework when specifying a single measurement basis or combination of bases for particular items in specific circumstances. Similarly, the Framework should also provide a point of reference for preparers faced with circumstances not previously dealt with in financial reporting standards.	
009	A	We agree that the Conceptual Framework should identify factors which are relevant in selecting a measurement basis rather than restricting public sector bodies to using a single measurement basis or combination of measurement bases.	
010	A	Identification of factors in the Framework seems to be appropriate except it does not take into consideration the draft conceptual framework of the Public Sector Debt Statistics. Although this draft guide on Public Sector Debt Statistics includes a chapter on Work with Other International Agencies, it makes no reference (that we could find) to IPSAS or the accounting principles promulgated by IPSAS. Also, in paragraph 1.2, it would be helpful to the reader if they understood more about the GFSM 2001 as follows "The GFSM 2001 prescribes a statistical reporting system issued by IMF in 2001 to implement the 1993 System of National Accounts issued by the United Nations. The information presented in the statistical reporting system is generally extracted from the accounting system and modified as necessary to be in compliance with GFSM 2001."	
011		*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
012	A	The Framework should outline the measurement bases that can be applied in the development of IPSASs. The measurement basis used should reflect the nature of the asset (or liability) and management intention for holding a particular asset (or assuming a particular liability), while having regard for the qualitative characteristics. Consequently, we are of the view that a single measurement cannot be prescribed in the Framework.	
013	A	We regard the discussion on when which basis should be used as being part of each specific Standard. The *Conceptual Framework* should permit different measurement bases.	Noted, but the Framework should help.
014	A	The characteristics of the public sector called back in our general comment (specific nature of assets and liabilities, perpetuity of the action of the public sector; mainly not trade activity) must be identified in the conceptual framework to choose the valuation method of assets and liabilities the most adapted. From then on, according to the characteristics of assets and liabilities, the conceptual framework should recommend a combination of valuation methods.	
015	A	We consider that the framework should simply identify the factors that are relevant in selecting measurement bases for assets and liabilities. However we also consider that the framework should consider the circumstances (if any) where assets/liabilities should be measured at: • Notional value (e.g. for historical/community assets); or • Historical value: or • Current value. Consideration of how current value should be measured (e.g. by fair value, fulfillment value, depreciated replacement cost, market value, deprival value etc) should instead be undertaken when developing specific IPSAS within the factors identified in the framework.	Does not seem to be necessary for the Framework to discuss 'notional value' as it cannot convey information on the financial position. Noted, but the Framework should help.
016	A	The CNOCP believes that in the Conceptual Framework it has to be consistent with the choices made in the two previous consultation papers (Conceptual Framework Exposure-	

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		Draft and Consultation Paper Elements and Recognition in Financial Statements); **it recommends that the appropriate measurement bases should be specified for the financial statements of public sector entities on the basis of these choices without linking one basis to a specific type of asset or liability**. However, the CNOCP is not in favour of selecting a single measurement basis.	
017	A	The role of the Framework is to establish the objectives of general purpose financial reporting (GPFR), describe the elements that constitute the building blocks to be reported on and how those elements are presented. In our view, accrual accounting information is useful when items are measured in relation to current facts and circumstances. For practical reasons, this will usually require that a combination of measurement bases be used. Financial assets and financial liabilities When a reliable current measure of an item's value is available, such as when identical items are traded in deep and liquid markets, there is a strong argument to use market prices. When this is not the case, the reporting process needs to consider the anticipated cash flows associated with the rights or obligations stemming from control of the item. The item should be measured based on this information. When an item is not subject to significant variability, a practical approach may be to measure the item based on its historic entry value adjusted for current information (an example being short-term amounts receivable expressed at cost less an allowance for doubtful accounts). Non-financial assets and non-financial liabilities As it is an objective that general purpose financial reports measure stewardship over non-financial assets and non-financial liabilities, IPSASB needs to annunciate its objectives in this regard. Is it an objective to report on service potential and changes in service potential or to simply measure surplus or deficit in purely monetary terms. The deprival value model may prove to be useful in establishing the most appropriate current measure of the service potential associated with an asset or service obligation associated with a liability if that is defined to be a reporting objective for general purpose financial statements.	Agreed that there is a need to discuss the importance of a deep and liquid market, but it is not obvious that only financial assets and liabilities are traded on such markets.
018		*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
019	A	CIPFA considers that the framework should mainly identify the factors that are relevant in selecting measurement bases for assets and liabilities rather than specifying one or more measurement bases to be used. It would be helpful if in doing this, the framework provided indicative guidance on the circumstances under which IPSAS standards might allow or require assets or liabilities to be measured on a historical or current value basis, however defined.	
020	C	The Joint Accounting Bodies believe that the role of the Framework should be two fold aspirational and practical. First, the Framework should be aspirational. Therefore, we consider that the Framework should include a section that articulates the 'conceptually ideal' capital maintenance concept and measurement base for use in the public sector. Second, the Framework should be practical. The CF CP Measurement paragraph 1.5 states "it is not expected that the IPSASB Framework will identify a single measurement basis that is appropriate in all circumstances. Since there is only one capital of each entity, there would be little sense in using different maintenance concepts for different assets and liabilities. Accordingly, for practical reasons, we support the Framework departing from a clear capital maintenance model. Instead, the Framework should identify factors to be referred to by the IPSASB in choosing the measurement basis to be required for particular assets and liabilities in specific circumstances, thereby ensuring the production of information that presents with relevance and faithful representation and other qualitative characteristics as appropriate.	See discussion in See discussion of historical cost in Memorandum 4D.0 (paragraphs 29-33).
021	A	We agree that the role of the Framework should be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances. In our view, it would be a serious mistake for the Framework to specify a single measurement basis. Although such an approach would be conceptually tidy, it would result in a Framework that would not provide useful guidance in devising practical approaches to accounting standards. The result may be standards that contain unsatisfactory compromises towards an unattainable ideal. In practice, different bases are most relevant in different circumstances. For example, an obsolete asset that offers no utility to its present owner should be measured at selling price,	Noted.

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		but the general use of selling prices would not result in useful financial statements. Given the advantages of historical cost, particularly its relative reliability, it is inevitable that in many cases it may be the most —indeed perhaps the only—practicable measure. This should be acknowledged in the Framework. To be useful, the Framework should discuss a number of measurement bases, identify their advantages and drawbacks and suggest the circumstances in which they may be expected to produce useful information. To summarise, we support the aims of the Framework as regards measurement as set out in paragraph 1.5 of the Consultation Paper. The Framework might also usefully acknowledge that in some cases more than one measurement basis may provide relevant information, and thus the usefulness of financial statements would be enhanced by supplementary disclosure of alternative measurement bases.	
022	C	ACAG considers including measurement base(s) within the Conceptual Framework would increase the Framework's ability to meet these needs. Paragraph 1.2 of the IPSASB exposure draft '*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 1*' notes that the conceptual framework: "...can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles and other concepts identified in this Conceptual Framework..." Therefore, preparers may use the framework to determine the appropriate accounting treatment where other IPSASs are silent on a specific transaction. In applying the Framework these preparers would need to answer: - does the transaction meet an element definition?; if yes - does the transaction meet the recognition criteria?; and if yes - at what amount should the transaction be measured?	

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
023	A	We consider it convenient to specify a combination of bases.	
024	A	The Task Force is of the view that the Conceptual Framework should retain a flexible approach, whenever possible, by not specifying preferred approach when options are considered to be interchangeably suitable depending on the specific circumstances of an item or a transaction to be reported in GPFSs of a reporting entity. Limiting the choice to a single measurement basis might prevent possible subjectivity and bias and might improve consistency of accounting policies used by prepares of GPFS, but may not result in useful presentation of information to users of GPFS, which is a superior goal of IPSAS compliant financial reporting. Specifying a combination of bases as options to be applied while measuring particular assets and liabilities may result in a more favorable approach, by eliminating guesswork from the process and promoting consistency and comparability of financial statements, provided that the specified combination of options satisfies the majority of circumstances related to measurement of assets and liabilities of entities reporting under IPSAS.	
025	A	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.	
026	C	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 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) 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	

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		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.	See discussion of concepts of capital maintenance in Memorandum (paragraphs 29-33). .
027	A	I concur. A single measurement basis may not be relevant in a dynamically changing environment with multiple dependent conditions, changing markets and unpredictable too numerous to enumerate.	
028	B	The AASB disagrees with limiting the role of the Measurement chapter of the IPSASB	See Memorandum (esp. paragraph

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		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). This treatment is consistent with adopting an operating capability concept of capital maintenance (see comments below on concepts of capital and of capital	21)

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		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. 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	See discussion of concepts of capital maintenance in

R#	CATE-GORY	COMMENTS ON SMC 1	STAFF COMMENT
		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 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.	Memorandum (paragraphs 21-23).
029	A	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	

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		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.	
030	A	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.	
031	A	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."	

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		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.	
032	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. 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	For PSAB's position, refer to Response 17.

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		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 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.	Framework- CP 3 was also supportive of an entity-specific approach, on the basis that similar assets may provide different opportunities (and be subject to different constraints) depending on the owner. It distinguished this from reflecting the intentions of the entity.
033	A	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	

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		treatment of qualitative characteristics and cost constraints should be considered for determination of a measurement basis at the time of setting the accounting standards.	
034	B	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.	
035		*Did not comment on this SMC.*	

SMC 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?

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

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) AGREE THAT ROLE SHOULD BE TO IDENTIFY FACTORS RELEVANT IN SELECTING MEASUREMENT BASIS IN SPECIFIC CIRCUMSTANCES	**8 (24.2%)**
(B) SINGLE MEASUREMENT BASIS	
(a) Historical cost	**3 (9.0%)**
(b) Market value	**1 (3.0%)**
(c) Replacement cost	**0 (0.0%)**
(C) COMBINATIONS OF BASES/APPROACH	
(d) Deprival value	**4 (12.2%)**
(e) Historical cost and market value	**5 (15.2%)**
(f) Replacement cost and market value	**0 (0.0%)**
(g) Historical cost, replacement cost, and market value	**5 (15.2%)**
(D) OTHERS	
(h) Another measurement basis or combination of bases/approach	**2 ((6.0%)**
(E) NO CLEAR VIEW EXPRESSED	**5 (15.2%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**33 (100.0%)**
(F)DID NOT COMMENT	**2**
TOTAL	**35**

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001	A	NAO opines that all measurement bases and concept should be included in the Framework since each basis has its advantages and disadvantages and can be used in certain instances. In particular, the historical cost model and the deprival value model should be used in the Framework. The historical cost model is particularly important as it is the measurement basis which is mostly in use. The deprival value model is to be included as it does not specify one current cost model but indicates the current value that is most relevant to the situation. The remaining measurement bases (market value and replacement cost), although referring to current cost, have one measurement basis.	Noted.

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		NAO rejects the alternative that some measurement bases are excluded since each measurement basis can be applied in relevant circumstances and therefore should be included in the Framework.	
002	B(b)	In light of inconsistencies in meaning of terminology used by other professional bodies and standard-setters (e.g. as used by the International Valuation Standards Council (IVSC) and IASB), HoTARAC believes readers may have differing interpretations of what is a "measurement basis". HoTARAC therefore strongly recommends that the IPSASB clearly articulate the difference between a measurement basis, proxy, valuation technique etc. For example, "replacement cost" is generally considered to be one potential proxy for "fair/market value" in circumstances where there are no observable market transactions for the particular asset, rather than being a measurement basis itself. As indicated in response to Specific Matter for Comment 1, HoTARAC believes the Framework should articulate its opinion about the single ideal measurement basis. However, HoTARAC does not believe the discussion in the Consultation Paper is sufficiently robust to support the selection of an ideal measurement basis. HoTARAC prefers the fair value measurement basis, as defined and applied by the IASB (e.g. as anticipated in the IASB's new standard IFRS 13 *Fair Value Measurement*). Fair value is a widely used and widely understood measurement basis in financial accounting. It is generally more relevant for evaluating and making economic and other decisions by diverse groups of users, despite any costs involved in ascertaining fair value. HoTARAC considers fair value generally meets most of the proposed qualitative characteristics of financial information as described in the IPSASB's Phase 1 exposure draft. "Fair value" is also already used in various IPSASs. The use of fair value as the ideal measurement basis for public sector entities would also reduce the administrative burden for preparers as fair value aligns with – • the use of market value for IMF/GFS measurement purposes; and • the use of fair value by the IASB (applied by public sector GBEs). HoTARAC's response to Specific Matter for Comment 3 also refers to the need to deal with "fair value" in the Framework. Regarding the Consultation Paper's general discussion, the points in paragraph 1.7 about	Noted. Do not agree that replacement cost is necessarily a proxy: it could be the prescribed basis and in a specific case "fair/market value" could be reasoned to be a proxy. See discussion of fair value in Memorandum (paragraphs 34-43).

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		historical vs current values, entry vs exit (including net selling price) values, and entity-specific vs market-based values, should be expanded to debate the relative merits of such aspects in the context of financial reporting by public sector entities. Other matters that HoTARAC believes should be addressed in the Framework include – • whether values should be determined on a stand-alone basis, or on the basis of being used in conjunction with other assets/liabilities; • acknowledgement that the more objective (verifiable) the measurement inputs are, the better is the measurement outcome; and how to deal with situations in which the single ideal measurement basis is not appropriate or practicable.	
003	C(e)	Ontario prefers the approach taken by the PSAB handbook. Specifically, the Framework should specify historical cost as the <u>primary</u> measurement basis for assets and liabilities and use other bases of measurement only in specified circumstances, which would be generally restricted to: (a) Valuation allowances used to reflect a reduction in the net recoverable value of a monetary asset; (b) Estimation (including annual re-assessment of estimation) of the amount of a liability at the reporting date using present value techniques (e.g., employee future benefits or landfill); and, (c) Monetary assets and liabilities denominated in foreign currency measured at the exchange rate at each reporting date (re-estimation of the local currency equivalent). Rationale supporting primary historical cost basis: • Using a historical cost-based measurement model is prudent and conservative and is consistent with the nature of the environment in which governments/public sector entities operate. • A historical cost-based measurement model for assets and liabilities will be more easily understood by the public.	For PSAB's position, refer to Response17. See discussion of historical cost in Memorandum (paragraphs 29-33)

R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
		• Using historical cost based measurement will ensure transparency and accountability of government financial reporting (alignment between summary budgets, estimates and financial statements). • The public relies upon information in the government's financial reports to assess whether the budget is balanced and if public services are delivered efficiently. The information presented on historical cost basis better serves these user needs (aligned with the basis upon which the government's budget is prepared). • Where appropriate, information regarding the market value and risks related to items included in the Statement of Financial Position (e.g. financial instruments) may be provided through the Notes to the Financial Statements, as notes are integral to the financial statements and provide significant information to users. • Budget to actual presentation/comparison on the historical cost basis is faithful representation. • Cost is relevant when providing accountability to the public for the resources of government including tax dollars. Rationale rejecting market value basis: • Government's main accountability to the public is for results against budget, and the yearly surplus/deficit, which is based on legislative budget authorization, and not temporary market fluctuations. • IPSAS 24 acknowledges the Budget as a key accountability report. As noted, Budgets would not include any projections of unrealized gains/losses, and therefore the comparability of the budget to actual results would be difficult for the user to understand. As it is written, the standard would require the actual results to be restated to the same basis upon which the budget was prepared for purposes of comparison. If we understand the Consultation Paper's intent, this would essentially result in two sets of books for actual results. Transparency and accountability in reporting will be negatively impacted to the extent that it is difficult to understand the two different sets of reports. • The market value basis does not reflect the economic substance of a government's underlying transactions, since governments generally do not hold assets with the	

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		intention of selling them, take speculative positions, nor do they generally seek holding gains or losses. • The introduction of a fair value approach on government financial reports impacts the quality of public sector reporting. This does not provide users of government financial statements with meaningful and relevant information on achieving their budget, and introduces complexities which would not be understood by the average user. • Including unrealized market value gains or losses in government financial statements may reduce users' understanding of government finances or performance against budget, and may also impact fiscal policy decisions if the unrealized gains are misunderstood as being available to fund future programs (or conversely if unrealized losses are misunderstood as resulting in a reduction in funds available for programs). • In Canada, PSAB requires that the budget be compared to actual in the government's financial statements. Since unrealized gains and losses would not have been included in the budget, the recognition of unrealized gains or losses on the statement of operations would cause difficulties in explaining differences between the budget and actual year end financial statement results, eroding user understanding of the financial results. • The approach taken in the private sector to diverge from historical cost basis supports private sector financial statement users who are interested in the accumulation of value for an economic return. Since the users of public sector financial statements have different needs relating to achieving the legislatively approved plans for the government, the changes in the private sector should not influence public sector reporting. • The practicality and timeliness of producing audited financial statements should also be a consideration. With the introduction of an alternative basis of measurement, incremental time, effort and cost on the part of preparers and auditors would be necessary, impacting the timeliness and cost of government financial reporting with no added benefit to the user. • Senior Canadian governments have long argued that market value for derivatives	

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		is not appropriate for the public sector. • Market value approach would not lead to better information for users to assess government performance or to better fiscal policy decision making.	
004	C(e)	Even if we see the role of the Framework to identify factors that are relevant in selecting measurement basis we have strong beliefs regarding the choice of measurement basis. In our point of view there is a need for the use of combination of the bases and the approach. We are of the opinion that the historic cost basis is the most relevant for assets used in the production of goods and services. In our opinion the value should reflect the financial sacrifices connected to the use of an asset, mainly when we talk about non exchange situations, which at least in Sweden is the basic situation in the public sector. These are best reflected in the historical value spread over time with depreciation. Comparability is achieved in the meaning that different circumstances when it comes to really accomplished outlays are reflected. For the purpose of financial position there are possibilities to use complementary information based on for example market value or replacement cost. For price calculations you need not be dependent solely on accounting figures. We see market value at assets used in the production as a relevant basis for prospective information and for some comparisons but these ends can be achieved with complementary figures. On the other hand market value does not reflect the financial sacrifice. Market value is also to be preferred when it comes to assets held for investment purposes. That is often the same with financial liabilities traded on the market. In situations where there are no market values replacement cost is a relevant measure. Finally, deprival value may be relevant when it comes to write-down requirement considerations.	See discussion of historical cost in Memorandum (paragraphs 29-33). The question is "when you use an asset do you sacrifice yesterday's historical cost or today's current value?" Comparability of today's financial position is not secured if similar assets are reported at different historical costs.
005	D(h)	As stated under Specific Matter for Comment 1, we believe that the objective of a Framework document should be to conclude on a single ideal measurement base, even if this is an ideal that can only be fully achieved in certain circumstances, for example, an active market. In broad terms, we believe there are two main measurement bases: current value and other than current value. We believe that, ideally, the single measurement base should be based on a current value, because current values are more relevant to evaluating and making	Support for a current value noted.

R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
		economic decisions. Within these two measurement bases, there are a number of different measurement approaches, which may or may not be separate measurement bases in their own right. For example: • Current value includes current market exit price and current market entry price (referred to as 'fair value' in IFRS 13). • Other than current value includes adjusted past entry prices (sometimes referred to as historic cost). From the current value bases, we believe that the ideal should be fair value. Market value or fair value is the most widely discussed / used current value model in the existing Accounting Standards, academic literature and the valuation profession. In this regard, we believe that the CP needs to discuss IFRS 13 *Fair Value Measurement*, which defines 'fair value' as an exit price. IFRS 13 is based on the view that a current entry price and a current exit price will be equal when they relate to the same asset or liability on the same date in the same form in the same market (IFRS13, BC44). In contrast, however, NSW Treasury is concerned at the disproportionate focus given in the CP to deprival value. We particularly note the assertions in the CP that: • deprival value "provides a rationale by which a specific basis may be selected as the most relevant in specific circumstances" (para 5.2) and • deprival value "ensures that appropriate consideration is given to all the qualitative characteristics and the need to obtain an appropriate balance between them" (para 5.3). In response, we believe that fair value, as articulated in accounting standards, does exactly the same as deprival value. NSW Treasury believes that, in practice, there is no material difference between deprival value and fair value (or market value), as demonstrated in NSW Treasury's Policy Paper TPP 07-1 (refer extract attached as an Appendix to this submission). Therefore, we strongly question the benefit of the deprival value concept, which we view as merely an additional concept that over-complicates the measurement basis. Finally, we note that IFRS 13 adopts a different solution to the problem of an ideal versus what is the most relevant basis in specific circumstances. Instead of alternative bases of measurement, it outlines a fair value hierarchy of alternative inputs. We strongly believe	See discussion of fair value in Memorandum (paragraphs 34-43). Staff disagree. The respondent's argument (not reproduced in this summary) relies on the assumption that there are no material differences between entry and exit values, and that costs to sell are deducted from fair value.

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		that a CP on measurement should acknowledge and rigorously evaluate the IFRS 13 approach to measuring assets and liabilities.	
006	B(a)	A single measurement base that primarily reflects historical cost is more consistent with the nature of the environment in which Canadian governments and public sector entities operate. It is more easily understood by the user, it is more objective and easily verifiable and provides transparency and accountability of government reporting as it reflects cost of services. In fact, the relevance of market values for Canadian governments is questionable. Where assets are generally held for long periods of time (little speculative investing) the short term changes in value that are reported under this a market basis are not relevant to the entity's financial position or performance. As well, in order for a market value basis of measurement to be useful to the user and achieve the objectives of financial reporting, there is a requirement that a deep and liquid market should exist. From the perspective of governments, there are not always readily available markets, especially in relation to highly specialized assets. As market prices may not be available, market values would have to be estimated which reduces comparability, verifiability and understandability. For reasons provided, replacement cost and the deprival value model, which are based on current cost measurement, are not supported.	See discussion of historical cost in Memorandum (paragraphs 29-33).
007	C(d)	The Deprival Value approach gives the best measurement basis since it precisely makes the measurement basis according to the objects of GPFRs and needs of primary users.	Preference for deprival value noted.
008	A	The Framework should specify each of the various measurement bases that could be relevant in particular contexts, to enable standard setters to make informed decisions when determining whether a particular basis or a combination of bases should be applied to an individual item. The Framework should therefore identify, define and describe each measurement basis, and discuss the extent to which each satisfies the qualitative criteria identified in Phase 1 of the IPSASB's Conceptual Framework Project. In addition to the bases listed above, value in use and net selling price should also be discussed in their own merit as opposed to within the deprival value concept.	
009	A	As we do not believe that the conceptual framework should specify a measurement base or combination of measurement bases (or approach), we have no further comments to add.	

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010	C(g)	The "deprival value" is conceptually the most appropriate measure of value to an entity. However, its application to assets which deliver services rather than economic flows involves assumptions about the value of such services. The approach becomes too subjective and susceptible to manipulation to be useable. We favor measures that are objectively verifiable as long as the limitations of such measures are clearly stated. Hence we support historical cost, replacement cost, and market value as long as these values are verifiable.	See discussion of deprival value in Memorandum (paragraphs 44-53).
011	E	Revenue recognition and measurement principles can conflict with liability recognition and measurement principles. We explore here under different market conditions when the two measurement approaches coincide and when they conflict. We show that where entities expect to earn 'super-profits' (residual income) the conceptual conflict is exacerbated by the adoption of 'fair value' (FV) as the measurement basis for assets and liabilities rather than the more theoretically grounded approach of 'deprival value/relief value' (DV/RV) which better reflects the impact of, and rational management response to, varying market conditions. However, while the balance-sheet liability and the revenue recognition problems, and the related problems of income statement presentation, can be resolved by the application of DV/RV reasoning, this is not sufficient fully to resolve issues of the appropriate timing of profit recognition. Performance measurement issues still need to be addressed directly. The standard setters' current 'revenue recognition', 'insurance contracts', and 'measurement' projects therefore need broadening to consider the pervasive issue of accounting for internally-generated intangibles.	The respondent's position supports use of deprival value, supported by discussion of how changes in value are to be reported.
012	E	Historical cost, market value and replacement cost are all appropriate within a specific context. For example, historical cost is favoured for its simplicity, while replacement cost and market values may be favoured in determining the current cost of the goods and services provided and may be useful in tariff setting. We would therefore support including all three these bases in the Framework. We would however suggest that fair value be considered as an additional "measurement model" which can be used in formulating measurement requirements at a standards-level. While the intention of "fair value" may be to depict a market-based exit value, there is ahierarchy of measurement methods that can be used to determine this value, i.e. a price in an observable market, a price determined using inputs that may not be directly observable,	Noted. See discussion of fair value in Memorandum (paragraphs 44-53).

R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
		and a value that is entity specific based on value-in-use or replacement cost. Just as deprival value is a method for selecting a basis that reflect the amount that would just compensate the entity for the loss of an asset, fair value is a hierarchy that is applied to measurement bases that best reflect a market-based exit value for an asset.	
013	C(e)	The combination of approaches (e) "*Historical cost and market value*" is preferred. A single measurement basis does not appear to be appropriate. For the measurement according to one approach or the other the use of the asset is decisive. For assets used operationally (*Administrative Assets*) measurement must be made on the "*Historical cost*" basis, for assets held for income (*Non Administrative Assets*) on the "Market value" basis. The difference between Administrative Assets and Non Administrative Assets was discussed in detail in the Comments to Phase 2 of the *Conceptual Frameworks* (Heading 3.5.2. (b). In the approach (c) "*Replacement cost*" we see various disadvantages: - There is latitude in determining the "optimised" *Replacement costs* for the required service potential. - The demarcation between an increase in the replacement costs and an increase in the general quality level is not easy. - The balance sheet amounts reflect future decisions. - The depreciation periods are less predictable and tend to be progressive. - Realisation of the approach in the accounts has not been exactly specified. In the *Deprival value* model we see the following disadvantages: - No advantages are apparent in comparison with the measurement with cost of acquisition and consistent Impairment guidelines. - A situative use of the *Replacement cost* model does not seem sensible (disadvantages see above).	Noted. Staff does not accept that replacement cost reflects future decisions. Cost is a historical measure: deprival value is current. Staff agrees that standards should specify the measurement basis to be used.

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		- The model is judged to be complex and would probably involve greater cost. It seems to be better if when which measurement basis is to be applied (one time decision) is described in the specific Standards. The different possibilities should not be packed in a single model (recurring decisions necessary).	
014	C(g)	In our view, we consider that the conceptual framework has to specify a combination of valuation methods for assets and liabilities linked to their characteristics and available information. Consequently, the DGFiP privileges the following combination of methods: historical cost, replacement cost and market value. According to the DGFiP, this combination of methods should not exclude an evaluation at the symbolic euro for heritage assets. The DGFiP privileges the historical cost method when this method is applicable, that is when the acquisition cost is known. Indeed, this method is used most widely by the public sector entities. When it is not possible to reconstitute the historical cost, the DGFiP recommends the use of the market value method, as far as there is an active market. Besides, when the nature of assets to be estimated is so specific that there is no market and that the historical cost is not relevant, the DGFiP considers that the replacement cost method should be used. As regards the liabilities and in particular the financial debt, the DGFiP considers that they must be estimated according to the historical cost method. However, for example, the notes to the financial statements of the central government should supply additional elements relative to the evaluation at market value, but as additional information. The DGFiP considers that the « deprival value » approach is not strictly speaking a valuation method but more a decision tree to choose the appropriate valuation method. Indeed, this approach leads to hold the lowest value between the replacement cost and the "recoverable" value (for whom it is advisable to retain the strongest value between the value in use and the net selling price). In our view, this approach should not be used because of the complexity of its implementation. Indeed, the preparation of financial statements and the choice of a valuation method have to be made in the respect for the cost / benefits ratio.	Noted. See discussion in Memorandum (ESP. paragraphs 11-20)

R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
015	A	As noted above, we do not consider that the framework should specify measurement bases.	
016	D	**The CNOCP supports a combination of measurement bases**: historical cost, market value and replacement cost. Moreover it wishes to establish a hierarchy for these measurement bases. The traditional method is historical cost. However, according to the type of elements to be measured other bases may be used. The historical cost basis leads to measurement at acquisition cost at the date of initial recognition by an entity. In France, its use is widespread in the accounts of Central Government, public establishments, local authorities and social security organisations, who manage their assets over the long term. This basis is appropriate for the revenue and expense-led approach. What is more, it has the advantage of being simple and meets the objectives of users of financial statements (identified in the exposure draft for phase 1). However, Central Government and certain public establishment have specific characteristics with regard to the lasting nature of their actions and the nature of their assets, so that for these entities acquisition cost is either unknown or not significant. **Where it is not possible to use historical cost, because it is unknown or out-dated, market value may be used**, particularly if the asset is actively managed. In order to measure assets on this basis, reference must be made to transactions in assets of a similar nature. In the absence of a liquid market for such transactions, estimations are authorized by accounting standards. The CNOCP considers however that this basis is inappropriate for measuring liabilities, in particular Central Governments financial debt. **Lastly, in certain specific cases, replacement cost may be used as a last resort** although; in some cases the assets and liabilities of Central Government are by nature irreplaceable. As an illustration, depreciated replacement cost is used in the accounts of Central Government to measure road infrastructures, the acquisition cost of which is unknown and for which there is no recognized or identifiable market value. A specific additional comment is required to deal with the measurement of financial	See discussion of historical cost in Memorandum (paragraphs 29-33). Staff consider that this is a *petitio principi*. Noted. Use of replacement cost in current practice is noted.

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		assets and liabilities. The financial debt of the French Central Government is measured at historical cost according to current accounting standards (see Central Government Accounting Standards Manual). Additional information in relation to measurement at market value is disclosed in the notes. To improve the quality of the information provided, further disclosures – for example the presentation of the debt showing the effective interest rate –should be considered.	Noted.
017	A	In our view, the Framework should focus establishing the objectives of financial reporting, the difference between financial and non-financial items, and measurement methods that support those objectives. The strengths and weaknesses of each method should be explained. We support the need for a combination of bases as described in our answer to question 1.	Noted.
018	E	**Historical Cost** Under the historical cost basis assets are reported at the cost incurred on their acquisition and liabilities are stated on the historical cost at the amount received in the transaction under which the obligation is assumed. Advantages and limitations in using historical cost are discussed in the consultation paper and it is stated that historical cost is a widely used basis of financial reporting and therefore has the advantage of familiarity just as historical cost information generally has a high degree of verifiability. In Denmark historical cost is used as the general measurement basis for assets and liabilities in our financial statements. When we have chosen historical cost as a measurement basis it is because it is easy to use and because it has a high degree of verifiability. A further important factor for choosing historical cost is that historical cost is particular suitable for comparing cost incurred against budgets. **Market Values** In a market value system of accounting, assets and liabilities are stated at market prices prevailing on the reporting data. It is therefore a current measurement basis, and reflects a	See discussion of historical cost in Memorandum (paragraphs 29-33).

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		market rather than an entity-specific perspective. Advantages and disadvantages of using market values are discussed in the consultation paper and it is concluded that in an ideal context market value possess all of the following qualitative characteristics: relevance, faithful representation, understandability, timeliness, comparability and verifiability. In Denmark we only use market values as a measurement basis in a few areas concerning real estate. One of the reasons why market values are used in the real estate area it that it can be based on the public real estate valuation. **Replacement Cost** The replacement cost of an asset may be defined as the most economic cost required to replace the service potential of an asset. Advantages and disadvantages of using replacement cost are discussed in the consultation paper and it is concluded that the major advantage of replacement cost compared to other measurement bases is its relevance for both accountability and decision-making purposes. It is also concluded that in some cases calculation of replacement cost will be complex just as the use of replacement cost will require subjective judgment. This will prejudice the timeliness, comparability and verifiability of information prepared on a replacement cost basis and will also make it more costly than other alternatives. In Denmark we do not use replacement cost as a measurement basis in our financial statements. **The Deprival Model** The deprival value model does not prescribe a single measurement basis but provides a rationale by which a specific basis may be selected as the most relevant in specific circumstances. The deprival value model reflects the loss that the entity would sustain if deprived of the asset. This cannot be higher than cost of obtaining equivalent service potential (replacement cost) or lower than the amount that the entity can recover from the asset (recoverable amount). The choice of measurement base reflects the highest economic value that the entity can derive from the asset: replacement cost is selected where the asset is	Noted. Noted.

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		worth replacing and net selling price is selected when it is not and the highest value will be obtained from immediate sale. Value in use is selected when an asset is not worth replacing but the value of its service potential is greater than that which would be derived from sale. The Danish Agency for governmental management finds that the description of the deprival model is very interesting, complete, balanced and fair. On the other hand we doubt whether the model will find use in public financial statement due to the fact that it is very complex and requires a lot of subjective judgment. Furthermore the model will be very costly to apply. On the basis of the deprival value model for assets introduced in the consultation paper the Danish Agency for Governmental Management considers developing and applying a derived model to be used when measuring transferred assets between central government institutions and measuring infrastructural assets and maintenance backlog. Regarding the latter the value of the maintenance backlog could be viewed as the residual between the replacement cost and the value in use, which could be recognized in the balance sheet as a liability expressing future obligations to carry out maintenance on these specific assets.	See discussion of deprival value in Memorandum (paragraphs 44-53).
019	A	Per our answer to Specific Matter for Comment 1 above, we do not consider that the framework should specify measurement bases.	
020	F	It is premature to specify a single approach to measurement irrespective of whether it is a single measurement basis or a combination of bases or approach, however; would encourage the IPSASB to continue to liaise with the IASS/FASB to work towards a consistent approach to measurement. The CF CP Measurement Table 1 provides an overview of the above measurement bases or approach. We understand that classifications are subjective. For example, Table 1 describes historical cost as an entity-specific value, whereas some commentators describe it as a past market value. The CF CP Measurement Chapter 3 discusses 'market values' as a measurement basis - sometimes without specifying whether it represents a market entry or an exit value (see paragraph 3.3); and on other occasions identifying the difference that would arise from using a market entry value in place of an exit value (see paragraph 3.12). However, we believe it is important that the Framework is as objective as possible. Therefore, we consider it important that the	

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		Framework contain a more comprehensive discussion of the differences between a market entry value and an exit value for it considered to be a rigorous discourse on measurement bases. It should also include fair value as an identified measurement base. We do not find the reasons for its exclusions at paragraph 1.14 very convincing.	See discussion of fair value in Memorandum (paragraphs 34-43)
021	C(d)	For the reasons stated in our response to SMC 1 we do not agree that the Framework should provide a single measurement basis. However, notwithstanding the above comment, in our view, the deprival value model has considerable merit in identifying values that are relevant in the economic circumstances of the entity. Particular strengths of the deprival value model are that it implies the use of current, rather than historic, values and entity-specific rather than market values where the latter are not readily available. That said, we agree that market values may be used for assets (and liabilities) where market evidence is sufficiently strong. The use of market values is consistent with, and not a departure from, deprival value reasoning as deprival value offers a rationale for selecting between different market values.	Noted.
022	C(d)	ACAG believes the deprival value model most closely reflects the above measurement bases. However, ACAG would also like to bring the IPSASB's attention to the practical issue of heritage assets under a deprival model. As acknowledged in the ACAG model discussed in the previous consultation paper, Governments often hold assets for a number of purposes. These include: - cash and cash equivalents to meet their financial obligations and/or exchange for goods and services. In these cases market value is likely to be the most appropriate measurement base. - assets held for sale which the Government plans to convert into cash or cash equivalents. Market value is likely to provide the most relevant information about such assets; and - assets to meet ongoing service delivery needs. If these assets were destroyed /impaired the Government would need to replace their service potential to continue maintaining service delivery levels. Therefore, measurement at	Noted. Staff consider that heritage assets should be addressed at the level of accounting standards, having regard to the robust recognition criteria that will be established in the Framework.

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		depreciated replacement cost is likely to be the most appropriate measurement base. In addition, public sector entities have legal or constructive obligations where no realistic alternative but to settle exists. In these circumstances the entity would chose to meet these obligations at their least cost alternative. Consider a public sector entity that owns a one-of-a-kind painting. The painting has no reliable market value due to its rarity (therefore no net selling price). The painting in itself is not cash generating but assists the entity in meeting its service delivery needs (therefore no measurable value in use). The entity would replace such an asset if possible but it cannot be reproduced and a similar alternative does not exist (no replacement cost). In these cases, it would be difficult to assign an appropriate value to the asset under the deprival value model.	Agreed. And if cost were not available, it would be impossible to assign a value to the asset under any conceivable measurement basis.
023	C(g)	The right one would be a combination of HISTORICAL COST AND REPLACEMENT COST basis for its application depending on the most likely destination of the assets. Rationale: According to the type of asset and its likely destination, the measurement basis differs; also, in this way, there is a possibility of using another basis when the original one cannot be applied due to the difficulties mentioned, for example, if historical cost in paragraphs 2.6 and 2.9. Assets of the state, including those of natural public domain. The measurement bases provided for in the document are not applicable to these assets. That is why another form of measurement should be considered.	Noted.
024	C(g)	The Task Force's position on this specific matter for comment echoes the position described above, in specific matter 1. The Framework should either allow preparers of GPFS to choose between different measurement bases or specify a combination of bases, provided that the latter will be applicable to nearly all public sector entities who may wish to conform to the Conceptual Framework. No single measurement basis should be identified as preferred. The Task Force is of the view that based on discussion regarding measurement bases in the Consultation Paper, if a combination of measurement is to be specified by the Conceptual Framework, it should be a combination of historical cost, replacement cost and market	

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		value, option (g). The Task Force considers it highly unlikely that historical value could be forgone entirely in specifying measurement bases for assets and liabilities of public sector organizations. This assumption is based on understanding that all other bases involve a need to refer to monetary value of assets and liabilities at the reporting date ("current" bases) using deep liquid market information in relation to the entity's asset/liabilities and services it provides. Public sector entities usually operate non-cash generating assets and often provide services that are rarely available on the market, therefore practicality or even possibility of using "current" bases to achieve better presentation of assets and liabilities of public sector entity in its GPFS is highly questionable. The Task Force chose to support option (g), which includes a combination of historical cost, replacement cost and market value, and not to support options (a) through (f). The position of the Task Force on options (a), (b) and (c) was discussed above, in previous comments to specific matter 2, part 1. Option (d), which proposes use of deprival value measurement basis, was not supported as the Task Force was not presented with evidence that the use of this method would result in more superior outcome than tried and tested combination of historical cost, replacement cost and market value, whereas the cost of switching to a new measurement basis may be very significant for preparers of GPFS. If, however, the IPSASB plans to present such evidence before this Consultation Paper is progressed to Draft Exposure Draft, the consideration of this option might be revisited. Options (e) and (f) were not supported based on two assumptions: (i) that disadvantages of each one of these bases may not be sufficiently covered by pairing up it with one additional measurement basis; and (ii) that refraining from limiting flexibility of preparers of financial statements to choose the most appropriate measurement basis, using their professional judgment, in order to meet needs of users of their GPFS is a preferred approach, provided there is no high degree of evidence to support the notion to narrow options.	See discussion of historical cost in Memorandum (paragraphs 29-33).
025	C(e)	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	See discussion of historical cost in Memorandum (paragraphs 29-33).

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		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.	

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		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.	Seems a bit harsh. See discussion of deprival value Memorandum (paragraphs 44-53)
026	A	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.	
027	E	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.	Noted.

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		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.	
028	E	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.	Noted.
029	C(g)	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	Noted.

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		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.	
030	C(d)	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.	Support for the deprival value model noted. Noted.
031	C(e)	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	

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		IPSAS.	
032	C(e)	<u>Historical Cost Basis of Measurement</u> 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	Staff do not accept that costs can meaningfully be compared if historical cost accounting is used. Argument seems to rely on a view that the proceeds of taxes are not 'revenue'. Staff do not accept that historical cost information provides information on the resources held at the reporting date, or that

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		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. 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	historical cost accounting can provide comparable information. Unfortunately for the argument, if the assets are similar they would have the same value (subject to any entity-specific factors). Noted.

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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.
<table>
<tr><td colspan="4">Comparison of Qualitative Characteristics</td></tr>
<tr><td>Basis of Valuation</td><td>Cost</td><td>Market</td><td>Replacement Cost</td></tr>
<tr><td>Relevance</td><td>Cost of
current service</td><td>Disposal value if service/asset no longer provided</td><td>Cost of future service if asset in use is immediately replaced</td></tr>
</table>
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
</td><td>
Staff do not accept that [historical] cost shows the cost of current service, nor that replacement cost shows the cost of future service: rather replacement cost shows the current cost of current service.

This comment supports the view that the reporting of changes in assets should be addressed.
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		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. 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. <u>Replacement Cost Value Basis of Measurement</u> 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	Footnote 14 in the Consultation Paper was the only reference to service concession arrangements made and argued that they would not resolve the issue.

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		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. <u>Deprival Value Bases of Measurement</u> 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. 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	See discussion of deprival value in Memorandum (paragraphs 44-53).

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		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. <u>Preferred Basis of Measurement</u> 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.	See discussion of deprival value in Memorandum (paragraphs 44-53). See the discussion of reporting changes assets and liabilities in the Memorandum (paragraph 23).
033	A	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 expressed the view that, in addition to the deprival value model, the following should be discussed from the perspective of relevance;	Noted.

R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
		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.	
034	B(a)	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	See the discussion of historical cost in Memorandum (paragraphs 29-33). Staff disagree that costs measured under historical cost are relevant, or that replacement cost is relevant only to future projects.

R#	CATE-GORY	COMMENTS ON SMC 2	STAFF COMMENT
		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.	
035	B(a)	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.	See Memorandum (paragraphs 29-33). Staff agree with the advantages and disadvantages of replacement cost.

SMC 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).

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) AGREE THAT DISCUSSION BALANCED AND FAIR	**8 (29.6%)**
(B) PARTIALLY AGREE THAT DISCUSSION BALANCED AND FAIR	**12 (44.5%)**
(C) DISAGREE THAT DISCUSSION BALANCED AND FAIR	**5 (18.5%)**
(D) NO CLEAR VIEW EXPRESSED	**2 (7.4%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**27 (100.0%)**
(E)DID NOT COMMENT	**8**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
001	A	Yes, NAO believes that the discussion is complete, balanced and fair and draws out the strengths and weaknesses of the various bases. One might perhaps include under the historical cost model the possibility of revaluing assets to their fair value. A separate section might also be included to discuss the concepts of capital and capital maintenance and indicate more specifically and in greater length the effects of each measurement basis on the concepts of capital.	See discussion of concepts of capital and capital maintenance in Memorandum (paragraphs 21-22).
002	C	HoTARAC has a range of concerns with the Consultation Paper's discussion about the various "measurement bases", as explained below. <u>General</u>	

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		As mentioned in response to Specific Matter for Comment 2, HoTARAC believes there is confusion in the Consultation Paper about what is a "measurement basis". HoTARAC therefore strongly recommends that the IPSASB clearly articulate the difference between a measurement basis, proxy, valuation technique etc and re-structure the Consultation Paper accordingly. The discussion of each "measurement basis" should include a detailed assessment against the proposed objectives of financial reporting, and against each of the proposed qualitative characteristics and constraints of financial information (which may also inform the final determination of the IPSASB's qualitative characteristics of financial information). All discussion needs to debate the relative merits from both an asset and a liability perspective. Such analysis is necessary for an informed determination of the ideal measurement basis, bearing in mind the inevitable need for trade-offs between qualitative characteristics. It would also better support the IPSASB in deliberations at the standards "level" relating to assets and liabilities, and would provide useful conceptual guidance for preparers and users of public sector entities' general purpose financial statements. In addition, Appendix B would be enhanced if it included realistic illustrative examples demonstrating how "highest and best use" would be applied to determine values for individual assets (refer to the response to Specific Matter for Comment 5). HoTARAC recommends that the IPSASB discuss, and take a position on, the preferences between different valuation techniques (where there is a practicable choice for an asset or liability). It would be expected that such a position would take into account factors like the relative objectivity of the required measurement inputs (similar to the three level hierarchy the IASB has determined for fair value measurement). If the IPSASB decides not to deal with this aspect, HoTARAC recommends that it explain its rationale for not doing so. HoTARAC urges the IPSASB to review the presentation of material in the Framework about each measurement basis. In this regard, the structure of each section should be consistent to avoid perceptions of bias in the arguments for and against the differing measurement bases (despite the comments in paragraph 1.10 of the Consultation Paper). Further, given the varying depth of experience between government jurisdictions regarding the full range of measurement bases, there is worth in ensuring the Framework contains robust discussion of each measurement basis (regardless of assumed familiarity with certain concepts).	

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		Consistent with certain "General comments" at the beginning of this response, the Consultation Paper (in paragraph 1.2) expresses the IPSASB's desire for measurement bases to be consistent with those used for statistical purposes (e.g. as enumerated in the Government Finance Statistics Manual 2001). As general purpose financial reporting is intended to cater for a broad range of users, HoTARAC questions the appropriateness of consistency with GFS being a primary consideration. The GFSM 2001 deals with statistical concepts that are designed for macro-economic analysis and require specialist knowledge. Those concepts are not intended for use by the broad range of users of general purpose financial statements of public sector entities. Therefore, HoTARAC prefers that the focus instead be on the underlying conceptual merits of measurement bases for general purpose financial statements. However, should the IPSASB identify more than one measurement basis as being suitable, HoTARAC would support selection of that basis that most closely aligns with the GFS statistical model. The second sentence of paragraph 1.6 refers to assets being "reported on the same basis where circumstances are similar". However, as HoTARAC considers that principle should also apply to liability measurement, that sentence should also refer to liabilities. Paragraph 1.17 states that for the proper assessment of accountability it is important that assets are not understated and liabilities are not overstated. However, HoTARAC believes the Framework should be clear that it is equally important to ensure that assets are not overstated and that liabilities are not understated. Paragraph 2.2, the first bullet point of paragraph A3, and the last sentence of paragraph 5.45 in the Consultation Paper imply that recognition of a liability is preceded by the direct receipt of consideration. However, HoTARAC would argue that this is not always the case (e.g. in the case of many provisions), and therefore strongly recommends that the IPSASB ensure its discussion in the Framework is comprehensive i.e. that it is equally applicable to all types of liabilities. <u>Historical cost</u> HoTARAC questions the reference in paragraph 2.2 of the paper to discounting a liability to present value. In HoTARAC's view, discounting of future cash inflows and outflows does not fall within the historical cost measurement basis. Historical cost should either be the historical acquisition cost (for an asset), or the nominal amount previously agreed to pay in the future (for a liability).	Staff does not consider that historical cost requires the use of undiscounted amounts for liabilities. Liabilities are discounted under, for example, conventional accounting for finance leases and this is usually viewed as

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		Therefore, HoTARAC believes the Framework should deal with income-based (e.g. "present value") valuation approaches in a separate section. This separate section should include discussion about the application of discounted cash flow techniques in public sector contexts, including where an entity may be operating in a rate-regulated industry (where the amount of cash inflows is restricted). The Consultation Paper raises subjectivity concerns (in paragraph 2.7) about attributing transaction costs to an asset, allocating overheads to constructed assets, and allocating historical costs to individual assets acquired in a "basket" transaction. The IPSASB appears to acknowledge that these issues also apply under other measurement bases. However, in the interests of a complete and balanced discussion of each measurement basis, HoTARAC recommends that the IPSASB elaborate on why those matters "are particularly relevant to an assessment of the usefulness of historical cost", and why those issues are less of a concern under other measurement bases. Further, the issues about depreciation mentioned in paragraph 2.8 also apply to other measurement bases. Therefore, in the interests of a balanced discussion, HoTARAC recommends that these issues either be omitted from the historical cost discussion, or referred to under each measurement basis. <u>Market value</u> The Consultation Paper discusses the concept of "market value", and refers to the IVSC definition of "market value" in paragraph 3.2. This raises the following related issues – • the IPSASB's standards instead deal with "fair value" (e.g. in IPSAS 17 *Property Plant and Equipment*, IPSAS 28 *Financial Instruments: Presentation* etc); • the IVSC separately defines "market value" and "fair value" which result in different measurements. The IVSC definition of market value aligns with the IASB concept of "fair value", and (presumably) the use of "fair value" in existing IPSAS. However, the IVSC concept of "fair value" does not align with the IASB concept of "fair value" (nor, presumably, with the use of "fair value" in existing IPSAS); and • the IVSC's concepts are applied in a broader range of contexts than just financial reporting and, therefore, care needs to be taken in incorporating IVSC concepts into financial reporting pronouncements.	consistent with historical cost. See discussion on fair value in Memorandum (paragraphs 34-43).

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		Therefore, HoTARAC recommends that the IPSASB Framework deal explicitly with the "fair value" measurement basis, including specifying its definition for financial reporting purposes, and how the use of "fair value" in IPSAS relates to the term "market value" (if "market value" is retained as a "measurement basis" in the Framework). Care is urged to ensure consistency of measurement consequences between the Framework and individual IPSAS. The discussion about "fair value" should address the same issues as recommended for the other "measurement bases" (e.g. detailed assessment against the proposed objectives of financial reporting, against each of the proposed qualitative characteristics and constraints etc). The IPSASB also needs to consider and articulate the relationship between "fair value" and associated techniques like "replacement cost", "discounted cash flow" etc. The Consultation Paper indicates that a deep and liquid market is ideally needed for market values before a market value based measurement can be used (refer to page 8, footnote 11 on page 20 and paragraph 3.11). HoTARAC recommends that the discussion of the relative merits of "market value" deal with the consequences of such a limitation for public sector entities, given many of their assets and liabilities would not have a deep and liquid market. Paragraph 3.13 refers to dams and reservoirs providing services that would not be provided by non-public sector entities. As such an assumption doesn't hold true for all government jurisdictions, HoTARAC recommends changing these examples to assets like military assets and national parks. HoTARAC questions the last sentence in paragraph 3.8, since market/fair values are already a widely accepted feature of financial reporting. Any such perceived presentation difficulties have been overcome by the IFRS and GFS reporting frameworks via the use of the presentation classifications of "other comprehensive income" and "other economic flows", respectively, to avoid such market/fair value changes impacting directly on the reporting entity's operating surplus/deficit. <u>Replacement cost</u> As replacement cost is usually viewed as a proxy for "fair value" measurement, HoTARAC suggests that the IPSASB consider and articulate the relationship between "replacement cost" and "market value", if "market value" is retained as a measurement basis in the Framework.	Staff agrees that the scope of the public sector varies between jurisdictions Staff continue to believe that use of market values makes it more difficult to convey information on the effect of transactions. Staff does not agree that replacement cost can only be seen as a proxy for market value; Staff considers that it may also be a measurement basis in its own right.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		HoTARAC notes the comment in paragraph 4.7 about replacement cost being an entity-specific measurement, and the paragraph 4.16 concerns about replacement cost prejudicing the proposed qualitative characteristics of timeliness, comparability and verifiability. However, in HoTARAC's experience, inputs to replacement cost measurements can in fact be market-based, and replacement cost determinations can be made by external professionals and can be audited. Replacement cost may also reflect the views of market participants, who would be unlikely to pay more for an asset than the cost of replicating its service potential.	It is possible to limit the use of entity-specific assumptions in deriving replacement cost, but the usefulness of such measures is not clear.
		Also, HoTARAC recommends that the discussion about replacement cost examine whether and how different entity circumstances impact on the costs that should be included in the replacement cost (borrowing costs, for example).	
		The discussion about replacement cost would benefit from comparing and contrasting "replacement cost" and "reproduction cost", and in clarifying whether there are any circumstances in which these would produce the same valuation.	CP—CF3 made the important point that replacement cost may be less than reproduction cost. Staff agrees that in some circumstances they may be same.
		HoTARAC questions the concerns in paragraph 4.17 about the application of replacement cost to assets that may be sold for an alternative use. Consistent with HoTARAC's overall comments on this Consultation Paper, decisions in this regard need to be made in the context of the concept of capital that is concluded to be most appropriate to public sector entities. On that basis, HoTARAC considers the conceptual debate about alternative uses be included in the Framework, rather than in the development of specific IPSASs.	
		<u>Deprival value</u>	
		The second sentence of paragraph 5.3 refers to the use of historical cost where value in use is unverifiable. However, as historical cost does not appear to have a place (in subsequent measurement) under the deprival value model, it is recommended that that sentence be clarified. For example, should paragraph 5.3 instead refer to "replacement cost", consistent with the second sentence of paragraph 5.11?	The point made in CP—CF3 was that in some circumstances there may be good reason to *depart from* the deprival value model and use another basis, such as historical cost.
		HoTARAC recommends that the IPSASB review or clarify the comments in paragraph 5.24. In particular, the last sentence does not appear to be consistent with sub-paragraphs (a) and (b). To address this issue, should sub-paragraph (a) instead read "Cannot be lower than the <u>minimum</u> value that the entity can derive …"?	Staff thinks paragraph 5.24 is correct.
		Footnote 28 and paragraph 5.47 refer to serious practical problems in using an assumption	Noted.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		price, but these problems do not appear to be explained. In the interests of ensuring a robust debate about the merits of various measurement concepts, HoTARAC recommends that there be further examination of these "serious problems" within the Framework. HoTARAC also recommends that the last phrase of paragraph 5.34 be clarified, as it is reasonable to expect that the cost of fulfilment would generally reflect the carrying amount of resources to be used.	Noted.
003	B	In general, we think that the discussion presented in the Consultation Paper is balanced and fair. We have noted however, the following specific concerns: The Consultation Paper states that "in general, fixed assets are most effectively valued when the current written-down replacement cost is used as a proxy for the current market value". This reflects a balance sheet approach as followed by the private sector. As stated previously, Ontario believes that historical costs best serves the needs of users of public sector financial statements – the public and the legislature acting on their behalf. The Consultation Paper contends that depreciation of replacement cost represents fairly the cost of an asset's services consumed within an accounting period. However, the Consultation Paper does not work through the issues to determine how the proposals would impact public sector financial statements and public policy decisions (i.e. tax policy). For example, the distinction is made between replacement cost and reproduction cost by making reference to elaborate fireplaces and plasterwork, assumedly from historical buildings, which do not add to the service potential. However, they fail to recognize that, in the public sector, assets are routinely used well beyond their useful lives or are retained for other purposes. Unlike the private sector where users are seeking information on which to base resource allocation decisions, the users of government or public sector reports are seeking information to assess government performance against commitments (fiscal accountability). The suggested application of private sector concepts to the public sector is inappropriate. The Consultation Paper does not address considerations such as cost vs. benefit of its proposals, nor the impact of the proposals on the balance of qualitative characteristics of public sector financial statements. For example, the impact of a change to replacement value upon predictive value or the quality of information for accountability reporting	The sentence is quoted from GSFM 2001: it is not a view that was advanced in CP—CF3. Staff do consider that a fair reflection of public sector costs cannot adversely affect policy decisions. If an asset is still in use, it has remaining service potential which should be recognized. Noted. See covering memorandum. Staff suggest that historical cost information cannot have higher predictive value than current cost

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		purposes is not discussed. In conclusion, only historical costs align with the accountability model for government to the public and the needs of GPFS users. Ontario can only support the historic cost model for GPFS.	information. See discussion on historical cost in Memorandum (paragraphs 29-33).
004	B	We believe that the discussion lack the perspective of financial sacrifices as a relevant perspective when it comes to assets used in the production of goods and services.	Deprival value focuses precisely on the consequences of sacrifices.
005	C	In NSW Treasury's view, the discussion in the CP on the measurement bases is not complete, balanced or fair, for the following reasons. ***The discussion is not complete in many respects*** First, as discussed in Specific Matter for Comment 1, the CP does not rigorously and critically evaluate each measurement basis against the objectives of financial reporting and qualitative characteristics and cost constraints, in a structured, rigorous and consistent manner. The consequence is that the discussion is not complete. The incomplete nature of the discussion is illustrated by the IPSASB's rejection of a single measurement basis. The fact that, in practice, substitutes or proxies may need to be obtained for a measurement basis (and in individual accounting standards) does not deny that the ideal can be articulated. To simply state that "there is no single measurement basis that is appropriate in all circumstances" (para 1.5) misses the purpose of a Framework document. Further, articulating the ideal measurement model in the Framework should not preclude including guidance that may assist in choosing between measurement bases in specific circumstances, in the absence of being able to apply a single measurement basis. However, even if the limited scope of the CP is accepted, we do not believe that the CP is sufficiently complete to choose a preferred basis for measurement (or approach). Second, the CP does not sufficiently discuss the measurement of liabilities, except as part of deprival value which is not a separate measurement basis. The CP asserts merely that liabilities are unlikely to be measured at market value without adequate justification or explanation (para 3.14). Third, the CP is not complete, because, although the concept of capital is mentioned and	See discussion in Memorandum (esp. paragraphs 26-27).

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		linked to measurement bases, the concept of capital is not fully explained as being both a driver of alternative measurements bases, and as a concept that can be seen as a criterion for choosing between alternative measurement bases. The CP is also incomplete, as it does not discuss the following: • The unit of account to be measured; i.e. it does not define what is the asset or liability to be measured, which will affect measurement. • The valuation premise; i.e. whether the valuation is on a stand alone basis or through use in combination with other assets and liabilities. • What is the appropriate market; i.e.: o Principal market o Most advantageous market o Wholesale vs Retail market. • Fair value hierarchy, based on inputs. ***The discussion is not balanced or fair*** First, we believe that the discussion in the CP is not balanced or fair as deprival value is overemphasised. Conversely, the discussion of market value / fair value is very brief, even though it is the more widely accepted valuation methodology, and is materially no different from deprival value (refer Specific Matter for Comment 2). We do not accept that the discussion on deprival value needs more emphasis simply because it is not so well known. Second, the discussion of deprival value is more an argument of why deprival value is better that the other approaches. It argues and concludes in the first three paragraphs that: • deprival value is well established in the academic literature (para 5.1) • deprival value "provides a rationale by which a specific basis may be selected as the most relevant in specific circumstances" (para 5.2) and • deprival value "ensures that appropriate consideration is given to all the qualitative characteristics and the need to obtain an appropriate balance between them" (para 5.3).	Staff consider that this falls outside the scope of Phase 3. The 'appropriate market' issue arises only under some varieties of market value and fair value. See discussion of fair value in Memorandum (paragraphs 34-43). Noted.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		Although the same benefits could equally be argued for fair value, in contrast, the discussion of market value / fair value briefly states that "in an ideal context, market value possesses all of the qualitative characteristics" (para 3.5). The majority of the balance of the brief three pages then questions the usefulness of market value in other than the ideal situation, including more than one page explicitly articulating its limitations. Conversely, the 10 page discussion of deprival value did not address or contemplate any of its limitations. Instead, we believe that the CP should provide a balanced and fair comparison, including an equivalent evaluation of fair value / market value and other bases. For illustration, the following approach to determining the appropriate financial reporting valuation method was proposed by Chambers in *'Accounting, Evaluation and Economic Behaviour*' (1966)). He asked the following questions: • What property is to be measured; e.g. monetary measures based on present selling (exit) prices. • What is the concept of capital, which he termed 'capital maintenance' • What should be allowed in real world circumstances where the desired measurement basis cannot be reliably applied? Chambers then argued that all measurements are only approximations; i.e. which, although suggesting an ideal, then accepts surrogates. Third, we are concerned that the terminology used in the CP is confusing, as it uses concepts that are not mutually exclusive and mixes measurement bases, features and valuation techniques. The resulting conclusions make the CP neither fair nor balanced. For example: • Market value (as used in Valuation Standards) is confused with fair value (as used in Accounting Standards). • Valuation techniques (e.g. replacement cost) are confused with measurement bases (e.g. market value). • Replacement cost is not necessarily an entity specific measure; i.e. DRC is a measure of fair value under Accounting Standards.	

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		• Replacement cost is a subset of market value / fair value; i.e. replacement cost and market value are not mutually exclusive. • Deprival value is not a measurement base; rather it is an approach to choose the measurement base. • The CP refers to the IVSC definition of 'market value' but does not refer to the IFRS 13 definition of 'fair value'. Fourth, the line of argument in the CP is not balanced as it refers to consistency with Government Finance Statistics (GFS), but does not consider consistency with IASB. No rationale is given as to why GFS is an important consideration in the Framework; nor why the IASB Framework is not. The IPSASB Framework presumably will apply at the whole of government level, sector level, and individual entity level. However, as a macro-economic concept, GFS does not apply at the microeconomic level i.e. the entity level.	
006	E	*Did not comment on this SMC.*	
007	A	In our opinion the discussion is complete balances and fair.	
008	B	We are concerned that the deprival value concept is not well known, and is not a measurement basis in its own right; rather it assists in determination of the most appropriate measurement basis in a particular set of circumstances (decision tool). In addition, whilst we recognize that paragraph 1.14 of the consultation paper explains why fair value is not included, given its prominence in the discussions surrounding financial reporting by the private sector – in particular for financial instruments, which are also prevalent in the public sector – we do not share the view that no discussion of fair value should be included. As explained in paragraph 4.10, replacement cost provides input for future decision making, it would be helpful for paragraph 4.8 to also note the need to consider the likely future use – for example if the demographic changes were the result of e.g., a one-off natural catastrophe they would likely not be representative, and thus it would be inappropriate to measure a school at a replacement value based on "temporary" demographic changes.	See discussion on fair value in the Memorandum (paragraphs 34-43). Agreed. Replacement cost should reflect the remaining useable service potential.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		The Conceptual Framework also needs to address the impact of factors such as inflation etc. in selection of measurement bases. For example, whether historical cost might be a suitable measurement basis will be impacted by the degree to which a particular economy is affected by inflation.	
009	A	In our view the discussion on measurement bases and approaches is balanced and fair. However, we believe that discussions are not complete without reference to the wider debate on measurement which is yet to be conducted by the IASB as part of its conceptual framework project. We would therefore prefer publication of an exposure daft by the IPSASB on the measurement of assets and liabilities in financial statements to at least include consideration of the IASB's planned exposure draft in relation to Phase C of its conceptual framework project on measurement. However, we understand that the IASB has indicated that no further action will be taken on the measurement aspects of its project until at least December 2011.	
010	A	We are comfortable with the information presented.	
011	E	*Did not comment on this SMC.*	
012	B	We agree with the discussion as outlined in the paper. We do however have reservations about the application of deprival value. In particular, the deprival value seems to only indicate a choice between valuation approaches that represent a 'current' value (replacement cost, value in use and net selling price all imply the use of a current value at the reporting date). It is unclear how, or if, deprival value considers historical cost. As historical cost may be favoured because of its simplicity, it would be important to develop a model that considers historical cost in selecting an appropriate measurement basis. Also see the comments to specific matter for comment 2 above.	As noted in the Memorandum (paragraph 32), staff suggests that the ED should indicate historical cost may be an appropriate measurement basis. It cannot, however, be reconciled with the deprival value model.
013	B	There is too little focus on the function, which the balance sheet should fulfil. The differences in the bases in practice could be better described. The accounting implementation of the „*Replacement cost*" model should be described (does the value adjustment pass through the income statement or directly through equity?).	Noted. See discussion on reporting changes in assets and liabilities in Memorandum (paragraph 23).

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
014	A	The DGFiP considers that the analysis of valuation methods relative to the historical cost, to the market value and to the replacement cost, which is mentioned in the consultation paper, presents in a detailed and balanced way the advantages and the inconveniences of each of these methods.	
015	A	We agree that the CP discussion is complete, balanced and fair.	
016	B	The Consultation Paper presents successively the different possible measurement bases and approaches. It describes the main advantages and limits of these different approaches. The CNOCP agrees with these presentations which it considers balanced. It should however be noted that the concept of deprival value is unclear; in addition, this approach, rather irrelevant for liabilities, does not provide useful arguments for assets. We therefore question whether it should be mentioned.	CP—CF3 suggested that deprival value could be applied to both assets and liabilities.
017	B	In our view, the paper should emphasize the need for bases of measurement that incorporate current information. In the case of financial assets and financial liabilities, the Concepts should explain why measures based on market information are superior. It should also outline circumstances when measures based on historical cost updated based on current information are a practical and useful substitute. The paper should explain why non-financial assets and non-financial liabilities are fundamentally different from financial assets and financial liabilities. The bases of measurement that apply to non-financial items should flow once IPSASB can clearly annunciate the objectives it associates reporting on the stewardship of these items.	Noted. Staff agree that there is an important distinction between assets that are traded and those that are not. This distinction may, however, not be exactly the same as that between financial and non-financial items.
.018	E	*Did not comment on this SMC.*	
019	A	We agree that the discussion in the Consultation Paper is complete, balanced and fair.	
020	C	See our comments to Question 2 above.	

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
021	B	We would encourage IPSASB to develop further its exploration of the deprival value model in the development of its Framework. Specific aspects of the deprival/relief value model that may need to be considered include: (i) The relationship between replacement cost and value in use. It seems odd to reason that where replacement cost is irrecoverable, an asset may be stated at value in use, but that value in use may be found by the use of replacement cost. (ii) Clarification of the concept of net selling price. This might be understood as either (a) the net amount that the entity expects to realise from sale in the ordinary course of operations, after taking account of costs of completion, sale and distribution (consistent with the definition of 'net realizable value' in IPSAS 12; or (b) as the amount that could be obtained if the asset were sold immediately, without further processing at the best price immediately obtainable. The application of deprival value reasoning to liabilities under the label of 'relief value' is novel. One of its attractions is that it provides a rationale for recording 'deferred revenue' at the amount received until it has been 'earned' through performance. However, because of its novelty we believe that the relief value model requires further consideration before it is formally adopted. In particular, further consideration needs to be given as to how the relief model would deal with changing prices.	Noted.
022	A	ACAG considers the discussion included within the conceptual framework to be balanced and complete.	
023	E	For **Deprival Value Model,** No comments.	
024	B	The discussion of each of measurement bases was generally adequate. However, the Consultation Paper did not address strengths and weaknesses of combined measurement bases, options (e), (f) and (g), and there was no discussion regarding comparison of results produced by using (or continuing to use) combined measurement options as compared to using (or changing to) newly introduced deprival value basis of measurement.	Noted.
025	B	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	

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		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.	Staff considers that the provision of services is an economic benefit. The issue of whether the definition of an asset should include both 'economic benefits' and 'service potential' is discussed in Agenda Item 4C.
026	C	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."	See discussion in Memorandum (paragraphs 34-43).

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		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.	Noted. However, replacement cost is clearly an entry price and exit values (value in use and net selling price) were discussed.
027	E	*Did not comment on this SMC.*	
028	D	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	See discussion of (a) and (b) in the Memorandum (paragraphs 21-22). That's quite a big exception CP3 started by assuming an ideal context with no difference between

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		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.	entry and exit prices, and then discussed more realistic settings. .
029	B	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.	The basis for the view that relief value in irrelevant is unclear.
030	B	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	Noted.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		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.	
031	D	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.	
032	E	*Did not comment on this SMC.*	
033	C	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	

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		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.	See discussion on concepts of capital and capital maintenance and on reporting changes in assets and liabilities in Memorandum (paragraphs 21-23).
		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	It appears that these are examples of cases where the asset is not capable of providing services that are useful (today). The asset is therefore impaired.

R#	CATE-GORY	COMMENTS ON SMC 3	STAFF COMMENT
		received, discounted values, market values, etc.)..	
034	E	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.	
035	E	*Did not comment on this SMC.*	

SMC 4(a): In your view, should the effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) AGREE THAT ENTITY'S OWN CREDIT RISK SHOULD BE REFLECTED IN MEASUREMENT OF LIABILITIES AT INITIAL RECOGNITION	**10 (33%)**
(B) DISAGREE THAT ENTITY'S OWN CREDIT RISK SHOULD BE REFLECTED IN MEASUREMENT OF LIABILITIES AT INITIAL RECOGNITION	**11 (37%)**
(C)NO CLEAR VIEW EXPRESSED	**9 (30%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**30**
(D)DID NOT COMMENT	**5**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
001	A	NAO opines that the effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition.	Noted.
002	A	HoTARAC notes that the concept of "own credit risk" is not currently dealt with in any IPSAS. Also, HoTARAC questions the need to deal with this detailed issue in a high level Conceptual Framework. If the IPSASB decides to introduce this concept into its pronouncements, it would need to provide more guidance about this concept, including how to identify and quantify changes in "own credit risk". (a) Subject to the above comments, provided the measurement of the liability is based on a fair/current value, HoTARAC supports inclusion of an entity's own credit risk in measurement at initial recognition. However, even where measurement is based on a fair/current value, HoTARAC does not support the separate identification of "own credit risk" as distinct from the overall basket of risks that may be reflected in the measurement of a liability, due to difficulties in measurement and verification of that component separately. (b) Provided the measurement of the liability is based on a fair/current value, HoTARAC supports recognition of the effect of changes in an entity's own credit risk. However, paragraph A6 refers to the recognition of a gain if an entity's credit risk has deteriorated and recognition of a loss if the entity's credit risk improves. HoTARAC is firmly of the view that the effects of such changes should	View that changes attributable to credit risk should not have impact in surplus or deficit particularly noted.

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		not impact on the measurement of an entity's surplus or deficit, as this is counter-intuitive and potentially misleading. Other comments about Appendix A Footnote 27 explains that the discussion about credit risk is only described in relation to the entity as a whole, for simplicity. However, as acknowledged in footnote 27, in practice, credit risk would be dealt with in relation to specific liabilities (as risks of non-performance may vary, depending on the nature of the liability). HoTARAC considers it would be more complete if the IPSASB's analysis and discussion of credit risk deals with the various liability contexts that may exist (e.g. an obligation to pay cash vs an obligation to undertake an activity). This may better identify any issues with recognising the effects of changes in an entity's own credit risk. HoTARAC questions the assertions in paragraph A7 that the values of an entity's assets and liabilities would necessarily fall when its financial condition deteriorates. Provided the entity is still considered a going concern, this is not necessarily the case. An asset or liability's recognised value, and the ability to adjust its value, ultimately are governed by its measurement basis and associated accounting standards. For example, paragraph 69 of IPSAS 29 *Financial Instruments: Recognition and Measurement* states "A downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information". The usefulness of referring to losses that may not be recognized in financial statements is also questioned, as this debate should focus more broadly on the conceptual rationale for amounts that are reflected in a reported financial position, and the relationships between those amounts. HoTARAC agrees with the point made in the last sentence of paragraph A10 that only very rarely would a public sector entity be allowed to redeem a liability for less than is contractually due, and considers this is an important point in the debate about the merits of recognising the effect of changes in credit risk. Further, paragraphs A3, A5 and A12 refer to how an entity's credit risk would affect the amount that is received in exchange for the liability's issue. Even in those situations where a liability is preceded by the direct receipt of money, this may not always be the case for individual public sector entities (where non-commercial transactions are more common).	

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
003	A	We believe that an entity's own credit risk should be reflected in the measurement of the liabilities at initial recognition.	
004	B	Our answer is no to both questions.	
005	A	NSW Treasury believes in principle that, where measurement is based on current values, it is appropriate to include own credit risk, both initially and subsequently. However, where the measurement is not based on current values then it is not appropriate to adjust for own credit risk. However, this requires clarification as to what is regarded as a current value for a liability and when is it appropriate for it to be used. For example, it may not be possible or appropriate to measure the current value (or 'assumption price') of a liability where: • the highest and best use is to settle rather than transfer the liability or • there are no market participants. In such cases, the settlement or cost of fulfilment may be appropriate; i.e. an entity specific measure which makes no reference to market variables such as profit margins or credit risk.	
006	D	*Did not comment on this SMC.*	
007	B	In our opinion the effect of an entity's on credit risk should not be reflected at initial measurement.	
008	B	The IDW does not support the arguments that this issue is of limited significance to the public sector (para. A2) and would like to refer to its comment on this issue to the IASB made several times in response to discussion papers and exposure drafts in recent years. The IDW does not see any public sector specific reasons that would alter its previously stated rejection of a general reflection of an entity's own credit risk in measurement of its liabilities. Indeed, in the current climate experienced in Europe, we believe that such reflection would be highly inappropriate. We refer to our letter dated 24 July 2009 to the IASB, in which we pointed out three	Paragraph A2 of CP3 suggested that the argument that own credit risk is of little significance in the public sector context was questionable in light of recent events.

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		arguments against any reflection of an entity's own credit risk in measuring liabilities, which are briefly summarized as follows: • Resultant gains are counterintuitive (they do not derive from an improvement in an entity's economic situation and may thus confuse users) • Accounting mismatches between assets and liabilities may be increased (underlying declines in assets may not be evident in the financial statements) • Realization of such changes may be only hypothetical (in many cases this will be the case as public sector entities report on the going concern assumption) However, in this letter we also expressed the view that it is necessary to distinguish between obligations that are essentially exchanges for cash and those that are not. In the case of cash exchanges the credit risk will already have been taken into account on initial recognition (i.e., the price set takes account of the credit risk) but should not be reflected on re-measurement i.e., changes in that credit risk would not be reflected. Liabilities "held for trading" would be the exception to this. In contrast, for other obligations e.g., assets removal obligations on initial recognition, it would be appropriate to discount expected future cash flows at market rates that exclude the effect of credit risk, since managements future intentions would form the basis for expected future cash flows i.e., whether the liability will be fulfilled, transferred or settled, and subsequent discounting on re-measurements should use market rates that exclude changes in the entity's credit risk.	
009	B	We believe that taking own credit risk into account in measuring the fair value of a liability produces information that is illogical and does not meet the objective of relevance to decision making by users of the accounts. For example, an entity with a declining credit rating would conversely show increasing profitability in its financial statements if its credit risk was taken into account in valuing its liabilities. Including own credit risk in the measurement of a liability results in information that bears little relation to the economic reality of the situation it is attempting to describe, therefore should not be considered as part of a fair value measurement.	
010	A	We would support including the entity's own credit risk at initial recognition as well as subsequent revaluation in order to be consistently applied. Gains or losses on the revaluation of liabilities should be reported separately from operating flows, e.g. as	Need to present gains or losses related to own credit risk separately from operating flows noted.

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		movements on reserves.	
011	C	*The following is from the Abstract of the paper* Three observations on this crucial aspect of the arguments are relevant: 1. As acknowledged in the DP, changes in credit risk have counter-intuitive consequences for earnings if these are measured as 'change in FV', unless the complementary falls in asset values could also be recognised. Recent empirical research by Barth *et al*. (2008) finds that in practice for a majority of 'ordinary' US firms downward asset revaluations do outweigh the debt revaluation effect to give an overall value-relevant negative net effect on equity—but by definition any *reported* asset devaluations cannot include what (in addition to falls in previously unrecognized upward asset revaluations) may be the biggest impact for previously successful firms, i.e. the fall in the value of their unrecorded internal goodwill as their credit risk rises (e.g. Macve, 1984; Horton & Macve, 2000). 2. In the case of liabilities representing contractual business obligations, such as 'deferred revenue' for long term contracts (e.g. Macve & Serafeim, 2009), there is widespread unease that using FV could often give a 'Day 1' profit. The latest FASB/IASB DP on 'Revenue Recognition' (December 2008) is therefore against using FV as the Boards' members are 'uncomfortable' about this outcome. Obviously, their discomfort should be even greater at the idea that a 'Day 2' (or later) profit can arise simply through the contractor's credit rating having subsequently worsened (and therefore the FV of its liability fallen). 3. The issues get even more complex with pension and other post-retirement benefits and with life insurance liabilities: should we be accounting on the basis of immediate transfer (FV / 'CEV'? or 'settlement over term' (i.e. a PV of future cash flows measure) (e.g. Horton *et al*., 2007). Either way, the issue of 'credit risk' requires special consideration. From the point of view of the pensioners and policyholders (and the regulators who act to protect them), should the institutions promising these future protections be allowed to show that their liabilities have got less—giving an improvement in their 'statement of financial position'—just when it has become less likely (in the eyes of the market) that they will be able to pay them in full? This is more likely to conceal the reality of what is	Impact of approach adopted is noted.

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		happening to pensioners' or policyholders' security than to reveal it.	
012	C	How an entity determines fair value, either assets or liabilities, is an issue that should be dealt with in formulating the measurement requirements for particular assets and liabilities. We are of the view that how fair value is determined is an issue that should be considered at a standards-level rather than at a conceptual level.	
013	B	In principle no, with the exception of the provisions.	
014	B	The DGFiP considers that an entity's own credit risk is an integral part of the emitted financial instrument and does not have to be valued independently.	
015	A	We agree that, ideally, own credit risk should be reflected in the measurement of liabilities at initial recognition. As noted in paragraph A12 of the CP, when a liability is issued for a consideration the entity's credit risk affects the amount that is received in exchange for its issue. However there are practical difficulties associated with calculating own credit risk for other categories of liabilities. We consider therefore that IPSASB should undertake research in this area to establish to what extent these risks can be measured before concluding on this matter.	
016	B	On initial recognition of a financial liability, the CNOCP considers that the credit risk related to the issue is an integral part of the instrument, and should not be measured separately.	
017	A	In our view, financial performance should be measured in relation to each entity's own cost of financing. The cost of financing can be expressed in historical terms when there is evidence that it is the entity is managing the financial liability in relation to its contractual cash flow characteristics (i.e., that it is not a financial instrument that it is regularly trading). Consequently, our answers to these questions are: (a) Yes.	
018	D	*Did not comment on this SMC.*	

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
019	A	In our answer to Specific Matter for Comment 1, we suggest that the framework should mainly identify the factors that are relevant in selecting measurement bases for assets and liabilities rather than specifying one or more measurement bases to be used. Given this, it is difficult to provide an answer to this question which may depend on the particular measurement approach applied to specific assets. Having said this, we agree that some consideration should be given to own credit risk when determining the measurement of liabilities at initial recognition. As noted in paragraph A12 of the CP when a liability is issued for a consideration, the entity's credit risk affects the amount that is received in exchange for its issue. There are however practical difficulties associated with calculating own credit risk for some other categories of liabilities. We suggest that IPSASB would need to undertake research to establish to what extent a workable approach to own-credit risks can be developed before applying this approach widely in IPSAS standards.	
020	C	In our response to Question 1 above the Joint Accounting Bodies, stated one role for the Framework should be aspirational and it should articulate the 'conceptually ideal' capital maintenance concept and measurement base for use in the public sector. Whether or not the effect of an entity's own credit risk should be reflected in the measurement of liabilities on and following initial recognition will depend on the chosen ideal capital maintenance concept and measurement base. Our response to Question 1 above also called for a Framework that identified factors to be referred to by the IPSASB in choosing the measurement basis to be required for particular liabilities in specific circumstances. The current set of IPSASs makes use of different measurement bases to measure liabilities. This may continue to be appropriate if the resulting information presents with relevance and faithful representation. It is our understanding of fair value that it includes credit risk in the fair value measurement of a financial liability. In contrast, we understand that this is not the case when IPSAS 29 *Financial Instruments: Recognition and Measurement* requires a financial liability to be measured at amortised cost. IPSAS 13 *Leases* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* do not include own credit risk in the measurement of liabilities. Until the IPSASB makes decisions about the range of available measurement bases there can be no resolution of the place of own credit risk in the measurement of liabilities however; would encourage the IPSASB to continue to liaise with the	

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		IASB/FASB to work towards a consistent approach to measurement of liabilities and the treatment of credit risk and its reporting or otherwise within Other Comprehensive Income.	
021	B	In our view, this issue is better addressed in the context of accounting standards than in the Framework. We are inclined to the view that where a liability is assumed in a market transaction, as for example when an entity takes out a loan, the transaction should typically be measured at the transaction price, which will reflect an entity's own credit risk. The carrying amount will continue to reflect the effect of the entity's own credit risk at initial recognition where subsequent measurement is at amortised cost. However, the effect of an entity's own credit risk should not be reflected in the measurement of a liability at a current value in an entity's financial statements, because to do so would be highly subjective and the relevance, particularly of changes in an entity's own credit risk is doubtful.	
022	C	ACAG suggests the IPSASB reconsider this matter after a measurement base(s) has been determined as these are likely to affect the applicability of an entity's own credit risk in liability measurement.	Consultation Paper acknowledged that approach would depend on measurement basis adopted.
023	D	*No comments.*	
024	B	When a reporting entity assumes an operational liability, it should intend to settle it in full and therefore recognize/measure it in full in its GPFS, unless the entity is expecting to default. The concept of taking into account possibility of its own default when measuring its own liabilities contradicts with the going concern assumption and therefore is not a relevant argument for this discussion. Examples included in the Consultation Paper seem to relate to cases when a public sector entity borrows funds or receives funds which are subject to subsequent repayment with intent other than to supply goods or deliver services. United Nations System organizations rarely to none engage in borrowing transactions and rely on resources provided by donors to carry out their mandated 'programme' activities. Liabilities of United Nations System organizations and many other public sector organizations with the same financing structure are mainly operational or otherwise related to their mandated activities, for example, settlements with employees, rather than to the need to sustain or expand level of operations which are usually triggering events for	

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		issuing a liability for a consideration. Governments are more exposed to transactions with issuing liabilities for a consideration, but they are extremely unlikely to be able to redeem their liabilities for less than the contracted value in reference to their credit risk situation. For instance, Government bonds, which are the most widely used mode for issuing liability for a consideration by governments, are usually considered to be risk-free investment. Hence the view of the Task Force is that the effect on an entity's own credit risk in measurement of liabilities is a concept less relevant to the public sector entities.	
025	C	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.	
026	C	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.	View that issue standards-level issue inappropriate for Framework noted. In Staff view argument is persuasive.
027	C	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	

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		settlement of a claim.	
028	C	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	View that issue standards-level issue inappropriate for Framework noted. In Staff view argument is persuasive.

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		maintenance to adopt. An IASB staff paper accompanying an IASB DP on the treatment of own credit risk (issued in June 2009) 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.	
029	B	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.	
030	A	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.	
031	C	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	

R#	CATE-GORY	COMMENTS ON SMC 4(a)	STAFF COMMENT
		measurement as explain for Soltani, 2007 said that "the audit of financial statements is a special type of assurance engagement that deals primarily with 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. "	
032	B	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.	
033	D	*Did not comment on this SMC.*	
034	A	Nova Scotia is supportive of having the entity's own credit risk being reflected in the measurement of liabilities at initial recognition	
035	D	*Did not comment on this SMC.*	

SMC 4(b): In your view, should the effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) AGREE THAT ENTITY'S OWN CREDIT RISK SHOULD BE REFLECTED IN SUBSEQUENT REMEASUREMENT OF LIABILITIES	**7 (24%)**
(B) DISAGREE THAT ENTITY'S OWN CREDIT RISK SHOULD BE REFLECTED IN SUBSEQUENT REMEASUREMENT OF LIABILITIES	**13 (45%)**
(C) NO CLEAR VIEW EXPRESSED	**9 (31%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**29**
(D)DID NOT COMMENT	**6**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
001	A	It also believes that the effect of changes in own credit risk be reflected when liabilities are subsequently re-measured. Undertaking such an approach would enhance comparability of the financial statements.	
002	A	(c) Provided the measurement of the liability is based on a fair/current value, HoTARAC supports recognition of the effect of changes in an entity's own credit risk. However, paragraph A6 refers to the recognition of a gain if an entity's credit risk has deteriorated and recognition of a loss if the entity's credit risk improves. HoTARAC is firmly of the view that the effects of such changes should not impact on the measurement of an entity's surplus or deficit, as this is counter-intuitive and potentially misleading.	Noted view that effect of changes in entity's own credit rating should not be reflected in surplus or deficit.
003	B	Reflecting subsequent changes in credit risk is not appropriate in the public sector because of the following considerations: • It has limited significance in the public sector context because users of GPFS are not assessing a risk-based return on investment and governments are held accountable for realized gains and losses. • For those governments which have encountered reduced credit risk, there are superior indicators that exist to reflect credit risk. The publication of the government's credit rating would provide the same informative value without any	Staff unconvinced that users of financial statements are not assessing a risk-based return on investment. While own credit risk may not currently be an issue in Canada it is an increasing issue elsewhere.

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
		corresponding confusion and misunderstanding by the public for information presented in GPFS. • It is extremely unlikely that the public sector would be able to take advantage of any decline in its credit risk. • It does not support accountability reporting framework for the public sector. • It contradicts going-concern concept. • Increasing attention is being paid to the quality of credit ratings as evidenced by the SEC's recent initiatives. In addition, due to the low credit risk of governments in Canada this is not seen as a significant issue.	
004	B	Our answer is no to both questions.	
005	A	NSW Treasury believes in principle that, where measurement is based on current values, it is appropriate to include own credit risk, both initially and subsequently. However, where the measurement is not based on current values then it is not appropriate to adjust for own credit risk. However, this requires clarification as to what is regarded as a current value for a liability and when is it appropriate for it to be used. For example, it may not be possible or appropriate to measure the current value (or 'assumption price') of a liability where: • the highest and best use is to settle rather than transfer the liability or • there are no market participants. In such cases, the settlement or cost of fulfilment may be appropriate; i.e. an entity specific measure which makes no reference to market variables such as profit margins or credit risk.	Complexity of measurement for certain instruments noted. This was reflected in the Consultation Paper's analysis of market value.
006	D	*Did not comment on this SMC.*	
007	A	In our opinion the effect of entity's own credit risk should be reflected on subsequent	

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
		remeasurement.	
008	C	However, in this letter we also expressed the view that it is necessary to distinguish between obligations that are essentially exchanges for cash and those that are not. In the case of cash exchanges the credit risk will already have been taken into account on initial recognition (i.e., the price set takes account of the credit risk) but should not be reflected on re-measurement i.e., changes in that credit risk would not be reflected. Liabilities "held for trading" would be the exception to this. In contrast, for other obligations e.g., assets removal obligations on initial recognition, it would be appropriate to discount expected future cash flows at market rates that exclude the effect of credit risk, since managements future intentions would form the basis for expected future cash flows i.e., whether the liability will be fulfilled, transferred or settled, and subsequent discounting on re-measurements should use market rates that exclude changes in the entity's credit risk.	Staff not convinced that future management intentions should always dictate approach.
009	B	We believe that taking own credit risk into account in measuring the fair value of a liability produces information that is illogical and does not meet the objective of relevance to decision making by users of the accounts. For example, an entity with a declining credit rating would conversely show increasing profitability in its financial statements if its credit risk was taken into account in valuing its liabilities. Including own credit risk in the measurement of a liability results in information that bears little relation to the economic reality of the situation it is attempting to describe, therefore should not be considered as part of a fair value measurement.	While reflection of entity's own credit risk in measurement of liability may lead to counter-intuitive effects Staff not convinced that the information is necessarily illogical and that it fails to meet qualitative characteristic of relevance.
010	A	We would support including the entity's own credit risk at initial recognition as well as subsequent revaluation in order to be consistently applied. Gains or losses on the revaluation of liabilities should be reported separately from operating flows, e.g. as movements on reserves.	As for Respondent 2 noted view that effect of changes in entity's own credit rating should not be reflected in surplus or deficit.
011	D	*Did not comment on this SMC.*	
012	C	How an entity determines fair value, either assets or liabilities, is an issue that should be dealt with in formulating the measurement requirements for particular assets and liabilities. We are of the view that how fair value is determined is an issue that should be considered at a standards-level rather than at a conceptual level.	Staff notes view that this is a standards-level issue not appropriate for Conceptual Framework.

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
013	B	No. In this way unnecessary volatility can be avoided.	Volatility may be justified under certain circumstances where it provides relevant information that faithfully represents the economic phenomenon.
014	B	Using the market value to measure the financial liabilities does not seem appropriate to the public sector, in particular to the financial statements of the central government, as the French central government mainly hold financial instruments to maturity.	Staff not sure that an intention to hold a financial instrument to maturity negates the issue of own credit risk.
015	B	We agree that there is a theoretical argument for the effects of changes in own credit risk being reflected when liabilities are subsequently re-measured. However because of the counter-intuitive results of such changes, we do not consider an approach is tenable in practice.	Noted and accepted that effect may be counter-intuitive. Such effects were noted in the Consultation Paper.
016	B	On subsequent measurements, the CNOCP is not in favour of measuring financial liabilities at market value, because in their vast majority the Central Government's liabilities are made up of debt instruments intended to be held to maturity.	See above Respondent14.
017	C	No, unless the public sector entity has determined that it is trading in the financial liability.	See above Respondent 14
018	D	*Did not comment on this SMC.*	
019	A	We also agree that in principle there is an argument for reflecting changes in own credit risk when liabilities are subsequently re-measured. However we are not sure that a workable approach to such re-measurement can be developed. If own credit risk is included as part of re-measurement we suggest its application is limited to transactions where the link is identifiable, measurable and observable for example the issuance of debt or debt servicing obligations.	Staff note practical reservations qualifying view that principle there is an argument for reflecting changes in own credit risk when liabilities are subsequently re-measured .
020	C	In our response to Question 1 above the Joint Accounting Bodies, stated one role for theFramework should be aspirational and it should articulate the 'conceptually ideal' capital maintenance concept and measurement base for use in the public sector. Whether or not	Linkage with capital maintenance concepts noted.

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
		the effect of an entity's own credit risk should be reflected in the measurement of liabilities on and following initial recognition will depend on the chosen ideal capital maintenance concept and measurement base. Our response to Question 1 above also called for a Framework that identified factors to be referred to by the IPSASB in choosing the measurement basis to be required for particular liabilities in specific circumstances. The current set of IPSASs makes use of different measurement bases to measure liabilities. This may continue to be appropriate if the resulting information presents with relevance and faithful representation. It is our understanding of fair value that it includes credit risk in the fair value measurement of a financial liability. In contrast, we understand that this is not the case when IPSAS 29 *Financial Instruments: Recognition and Measurement* requires a financial liability to be measured at amortised cost. IPSAS 13 *Leases* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* do not include own credit risk in the measurement of liabilities. Until the IPSASB makes decisions about the range of available measurement bases there can be no resolution of the place of own credit risk in the measurement of liabilities however; would encourage the IPSASB to continue to liaise with the IASB/FASB to work towards a consistent approach to measurement of liabilities and the treatment of credit risk and its reporting or otherwise within Other Comprehensive Income.	
021	B	In our view, this issue is better addressed in the context of accounting standards than in the Framework. We are inclined to the view that where a liability is assumed in a market transaction, as for example when an entity takes out a loan, the transaction should typically be measured at the transaction price, which will reflect an entity's own credit risk. The carrying amount will continue to reflect the effect of the entity's own credit risk at initial recognition where subsequent measurement is at amortised cost. However, the effect of an entity's own credit risk should not be reflected in the measurement of a liability at a current value in an entity's financial statements, because to do so would be highly subjective and the relevance, particularly of changes in an entity's own credit risk is doubtful.	Staff notes view that this is a standards-level issue not appropriate for Conceptual Framework.
022	C	ACAG suggests the IPSASB reconsider this matter after a measurement base(s) has been determined as these are likely to affect the applicability of an entity's own credit risk in	View that issue dependent upon whether a single measurement basis

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
		liability measurement.	is determined is noted.
023	D	*No comments.*	
024	C	When a reporting entity assumes an operational liability, it should intend to settle it in full and therefore recognize/measure it in full in its GPFS, unless the entity is expecting to default. The concept of taking into account possibility of its own default when measuring its own liabilities contradicts with the going concern assumption and therefore is not a relevant argument for this discussion. Examples included in the Consultation Paper seem to relate to cases when a public sector entity borrows funds or receives funds which are subject to subsequent repayment with intent other than to supply goods or deliver services. United Nations System organizations rarely to none engage in borrowing transactions and rely on resources provided by donors to carry out their mandated 'programme' activities. Liabilities of United Nations System organizations and many other public sector organizations with the same financing structure are mainly operational or otherwise related to their mandated activities, for example, settlements with employees, rather than to the need to sustain or expand level of operations which are usually triggering events for issuing a liability for a consideration. Governments are more exposed to transactions with issuing liabilities for a consideration, but they are extremely unlikely to be able to redeem their liabilities for less than the contracted value in reference to their credit risk situation. For instance, Government bonds, which are the most widely used mode for issuing liability for a consideration by governments, are usually considered to be risk-free investment. Hence the view of the Task Force is that the effect on an entity's own credit risk in measurement of liabilities is a concept less relevant to the public sector entities.	True that government bonds have been considered risk-free in a large number of jurisdictions, but this assumption no longer can be taken for granted in many jurisdictions.
025	B	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.	Noted and accepted that effect may be counter-intuitive as pointed out in Consultation Paper.
026	C	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.	Staff notes particularly views that this is (a) a standards-level issue not

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
		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.	appropriate for Conceptual Framework and (b) that issue needs to be related to measurement objectives.
027	A	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.	
028	C	*Staff Note: See response to SMC 4(a).*	
029	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 fulfillment, 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	

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
		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.	
030	B	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.	See above Respondents 9,15 and 25.
031	C	*Staff Note: See response to SMC 4(a).*	
032	B	*Staff Note: See response to SMC 4(a.*	
033	D	*Did not comment on this SMC.*	
034	B	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	Many debt instruments issued by public sector entities are actively traded.

R#	CATE-GORY	COMMENTS ON SMC 4(b)	STAFF COMMENT
		borrowings.	
035	D	*Did not comment on this SMC.*	

SMC 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?

STAFF ASSESSMENT OF RESPONSES RECEIVED: These are staff views and do not necessarily reflect the views of IPSASB members

(A) ONLY SERVICE POTENTIAL	**17 (53%)**
(B) INCREMENTAL VALUE RELATING TO ITS POSSIBLE SALE FOR ALTERNATIVE USE	**5 (16%)**
(C) ANOTHER ATTRIBUTE	**0(0%)**
(D) NO CLEAR VIEW EXPRESSED	**10(31%)**
SUB-TOTAL OF THOSE PROVIDING COMMENTS	**32**
(E)DID NOT COMMENT	**3**
TOTAL	**35**

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
001	A	NAO opines that where assets are not restricted in use and therefore may be sold for an alternative use, the measurement reported in the statement of financial position is to reflect only the service potential relating to the existing use. This is due to the fact that as mentioned in the framework there must be strong evidence to support the possibility of a sale of the asset for the incremental value relating to its possible sale for an alternative use to be included.	
002	B	As mentioned earlier in this response, HoTARAC believes the IPSASB should first discuss and articulate which concept of capital (and/or capital maintenance) is most relevant for the measurement of assets and liabilities by public sector entities. HoTARAC also believes the Framework should also articulate the ideal measurement basis. These factors would influence the decision about which of the two options in Specific Matter for Comment 5 is the most appropriate. Subject to this, HoTARAC considers it more appropriate that an asset's value reflects its highest and best use (i.e. option (b)), as the highest and best use of an asset would generally be taken into account by most market-oriented measurement approaches. In this respect, HoTARAC questions the benefit of separately identifying the component reflecting the incremental value, due to difficulties in separately verifying such incremental value.	Links to concepts of capital and capital maintenance noted together with view on need for single measurement basis.

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
		In addition, Appendix B would be enhanced if it included realistic illustrative examples demonstrating how "highest and best use" would be applied to determine values for individual assets, including where assets are used in conjunction with other assets. For example, where the highest and best use of a property (comprising land and a building) would be to demolish the building and sell the vacant land, how would the entity ascribe values to both the land and existing building? <u>Other comments about Appendix B</u> A point that needs to be borne in mind is that public sector entities often hold assets of a specialised nature, and/or in a location, that makes it difficult to identify all alternative uses. Therefore, HoTARAC recommends that any assessment of highest and best use be based on a reasonable (rather than exhaustive) search for alternative uses. Paragraph B4 suggests that an alternative use should only be reflected in an asset's value where there is a high degree of evidence to support it. HoTARAC supports this, but believes the point of a planned disposal is too late for the purposes of providing useful information for decision-making. More timely information throughout an asset's life about the value inherent in alternative uses would be more useful for ongoing decision-making about retention of the asset for its existing use vs conversion of the asset for an alternative use vs disposal.	
003	A	As noted earlier, Ontario believes that the conceptual framework should focus on supporting quality financial reporting that best serves user needs and that historical cost is the appropriate basis of measurement. Assets that have service capacity should not be revalued if it continues to have service capacity for the existing or an alternate government use. It would be inappropriate to report any incremental values until realized or decremented value until actions to sell the asset are actually taken by the government. An event is needed, to confirm or solidify a change in value, and this would be related to impairment. Any divergence from historical cost as the basis for measurement conflicts with the accountability of governments to the public and will also increase risk in completing and auditing the financial statements on a timely basis, which is important due to the government fiscal planning cycle.	
004	A	Even if it would be possible to use an asset differently, including selling it, we have the basic assumption that assets are held for production purposes. From that point of view we	

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
		conclude that taking higher (or lower) sale values into the accounts would not reflect the actual financial sacrifices associated with the assets. We therefore support point a).	
005	B	NSW Treasury supports the approach adopted in IFRS 13 based on the concept of 'highest and best use'. That is, current value or fair value is based on the highest and best use; i.e. the use of the asset that is physically possible, legally permissible and financially feasible. This principle is established in accounting standard literature, valuation profession literature and academic literature. Highest and best use is more consistent with para (b) above (i.e. incremental value relating to possible sale for an alternative use), except that we believe it is more appropriate to reflect the value for the highest and best use as one value, rather than, as para (b) implies, based on two measures, the existing use value plus the incremental for an alternative use. We also note that, the IASB, in issuing IFRS 13, has moved away from the concept of an incremental value, which was originally proposed in their fair value Exposure Draft (ED, para 20 and 21).	
006	A	Further, there is no justification to report an amount in the statement of financial position that would include incremental value relating to an asset's possible sale for an alternative use. This does not provide information that is useful in the perspective of Canadian governments. Assets are generally held to provide services to the public and such decisions are not always made with a profit maximizing or a return perspective. In any regard, the financial statements should be presented to reflect the intent and purpose of management and in a manner that can be understood and relevant to the primary user.	
007	B	In our opinion, for the better understanding of users of GPFRs, it is more appropriate to include the incremental value relating to possible sale for an alternative use.	
008	D	In our view, it is not appropriate to seek a response to generalize this issue. Both measurements may provide useful information to financial statement users. However, the relevance for the statement of financial position will depend on the individual circumstances, including the entity's intent and ability to put the asset to alternative use or to sell it. The interaction between the two measurement bases and the qualitative characteristics identified in CP1 ought to be decisive factors. In the public sector context, even when assets are not restricted in use the entity may have an obligation to provide	

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
		particular services and be using the particular assets to do so, such that the extent to which the entity's actual ability to put the asset to alternative use or to sell it could be seen as realistic would need to be taken into account. The CP would benefit from a wider discussion of this aspect as it relates to the public sector context.	
009	D	We have not formed a definitive view on this matter. However, at this stage we believe that service potential relating to existing use is probably the most suitable approach to measurement where the assets are being used, for example, as schools or hospitals. Even when there is no specific restriction on the use of such assets, it may be difficult to value these reliably on the basis of alternative use. There may be a stronger case of using alternative use where assets are being used as offices, for example, in the business district of a city.	
010	A	We think it should only relate to the service potential for existing use. Otherwise, it is too speculative and subject to manipulation.	
011	E	*Did not comment on this SMC.*	
012	A	As the public sector exists to provide goods and services that are in the public interest, often at free or subsidised rates, it can be argued that an alternative use exists for many, if not all, assets in the public sector. An alternative use may reflect activities that are not in the public interest, or may reflect the provision of goods or services on a commercial basis. As the intention of holding assets in the public sector is to represent the resources available to an entity to meet its mandate/service delivery obligations, the measurement of assets on the basis of their alternative use would not result in the faithful representation of the financial position. We would therefore not support the measurement of assets considering their alternative uses; the measurement basis should reflect the service potential related to the existing use of the asset.	
013	A	Yes. Only the service potential relating to the existing use. Not include the incremental value relating to its possible sale for an alternative use.	
014	A	For the reasons mentioned above, the DGFiP considers that assets must be estimated according to their nature. Consequently, the intention to sell them should not be taken into	

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
		account to determine their value, especially since the public sector's missions do not take on mainly a trade character.	
015	A	Where assets are held to support service provision, they should be valued on the basis of service potential relating to the existing use. Where assets are held in order to generate an economic return, they should be valued at free market value. As we note in our response to Specific Matter for Comment 1, specific measurement bases should be considered in individual standards. The inclusion of incremental values based on market values relating to possible sale for an alternative use would, in our view, undermine the consistency, understandability and comparability of the accounts. Assets valued on the basis of service potential should only be re-measured at free market value when re-classified as 'held for sale'. As we note in our response to Specific Matter for Comment 1, specific measurement bases should be considered in individual standards.	
016	A	The CNOCP does not wish to move towards accounting principles based on intentions, which would lead to revaluing an asset held for sale, and wishes the valuation to reflect the current use. Nevertheless, where property is for sale and the sales process is underway, if there are elements which indicate a sale will shortly occur and consequently the sales price is known, the CNOCP considers that an appropriate disclosure should be made in the notes.	
017	A	First, we must assume that the asset in question is a non-financial asset as part (a) describes the assets in relation to service potential. On the other hand, if it is a financial asset, it should be measured in relation to current information as that is indicative of the resource available to the public sector entity. Financial assets can normally be measured in relation to the rights to future cash flows that can be expected to accrue to the party that controls them. In relation to non-financial assets, in our view the answer will flow once IPSASB better annunciates on what basis it seeks to measure financial position and annual surplus or deficit. We would also expect that a principle similar to that which we applied in	

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
		Question 4 should differentiate non-financial assets. Specifically, until there is evidence that the public sector entity has taken active steps to discontinue the service associated with the asset (either by discontinuing the service or by continuing the service with a replacement asset) we would expect that the basis of measurement would be based on its remaining service potential. Specific to your questions we would answer: (a) We do not accept the view that "the possibility" of the asset's disposal as being sufficient to change its basis of measurement. (b) We do not accept that an incremental value should be attributed to a possible sale as this presumably would represent a change in the basis of measurement.	
018	E	*Did not comment on this SMC.*	
019	A	In our answer to Specific Matter for Comment 1, we suggest that the framework should mainly identify the factors that are relevant in selecting measurement bases for assets and liabilities rather than specifying one or more measurement bases to be used. Given this, it is difficult to provide an answer to this question which may depend on the particular measurement approach applied to specific assets. However, on balance we expect that, − For assets utilised in a continuing service provision activity under the going concern basis, we would expect the measurement to primarily reflect the service potential relating to the existing use. − For assets held to obtain an economic return the measurement would, in the first instance reflect the assets value in existing use Having said this, in both cases information on net selling price may provide useful information to inform the reporting entity's decisions on whether to continue using the specific asset for the current purpose. Also where an activity is discontinued but the asset is retained for alternate use rather than disposed of then valuation based on alternate use may be appropriate. This might affect, for example, the value attributed to the service potential under certain circumstances, or might justify additional information provision in disclosures attached to the primary financial statements.	

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
020	D	The Joint Accounting Bodies believe it is too early to answer this question. We believe decisions on the definition of terms, the unit of account to be measured, capital maintenance concepts and measurement bases must take precedence.	
021	D	In our view, this issue is better addressed in the context of accounting standards than in the Framework. As the Consultation Paper says, it is necessary to balance carefully the risks that: (a) the real value of the assets are concealed by providing only existing use valuation where it is clear that greater value could be obtained by sale for an alternative use. This would impair the extent to which the financial statements meet the objective of providing information that is useful for an assessment of accountability; and (b) asset values are inflated by valuing assets having regard to alternative uses, where a sale for such an alternative use is only a remote possibility. It seems probable that an alternative use value would be more relevant in some cases (for example where disposal is imminent and the asset is being actively marketed) and might be preferred for use in the statement of financial position, with existing use valuation disclosed by way of note. In other circumstances, the use of the values might be reversed.	
022	D	ACAG considers that while an asset is held for service delivery purposes, the value to the entity should be limited to its current replacement cost, consistent with the deprival value model. Where the Government chooses to sell the asset, it would then be carried at net selling price and the change in value reflected within that reporting period. ACAG notes that applying an incremental value to assets 'not restricted in use' could have application issues in practice. The term 'assets not restricted in use' may introduce a high level of subjectivity into what constitutes restricted. For example, using the office building example in paragraph B1, some entities could argue that the asset is restricted as the alternate location would result in significant staff loss. Other entities may argue that political restrictions not linked to service potential prevent relocation of operations. Therefore, ACAG recommends that if such a concept is included within the Framework,	

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
		'not restricted in use' would need to be clearly defined.	
023	B	When the assets are not restricted in their use, it is convenient to include the incremental value relating to their possible sale for an alternative use.	
024	A	The Task Force is of the view that the issue of alternative use of an asset and resulting consideration towards choice of related measurement techniques to be applied to such asset (replacement cost or incremental value) should be triggered only if and when a reporting entity actually considers selling such asset. In this case the reporting entity should be given a choice to use incremental value, provided that there is a high degree of evidence to support it, or service potential value. If, however, the reporting entity plans to continue using an asset in carrying out activities to achieve its performance objectives, regardless of whether it could or could not be sold for alternative use, such asset should be measured using the same basis as all other assets of the entity used in carrying out its activities.	
025	D	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.	
026	D	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.	
027	D	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.	

R#	CATE-GORY	COMMENTS ON SMC 5	STAFF COMMENT
028	D	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). 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.	
029	A	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. 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.	
030	B	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	

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		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.	
031	D	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.	
032	A	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.	
033	A	We consider that only the service potential relating to the existing use should be reflected	

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		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.	
034	A	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.	
035	E	*Did not comment on this SMC.*	

OTHER COMMENTS

R#	ISSUE RAISED BY RESPONDENT	STAFF COMMENT
002	**Editorial Matters** Refer to Para. 1.7. The discussion in the second bullet about exit values needs to be enhanced to deal with exit prices for liabilities also. Refer to Para.1.9. Amend end of second sentence to read " … those reported in the statement of financial performance ~~statement~~ is transparent." Refer to footnote 10 to Para.3.3. Should be amended to read " … on the concept of fair value, defines fair value as an exit value, based on market participants' perspectives, and prescribes that it is not adjusted for	

R#	ISSUE RAISED BY RESPONDENT	STAFF COMMENT
	transaction costs, but is adjusted for transportation costs". Refer to footnote 14 to Para.3.13. Last sentence should be amended to read " … may be materially affected by the terms of such conjectural arrangements, and can vary greatly between different Service Concession Arrangements." Refer to Para.4.10. Small deletion required in middle of second sentence to read " … depreciation of replacement cost represents ~~a~~ fairly the cost of …". Refer to Para. A12. Small deletion required in first sentence to read " … when a liability is issued for ~~a~~ consideration …"	
017	Refer to Para. 4.8 **Replacement cost** In describing on what constitutes 'relevant service potential' we believe it would be useful to recognize, perhaps through an example, that the capacity of infrastructure, particularly piped services, is often planned and constructed in contemplation of growth. We would not expect that such an approach should result in a near term write-down based on the example given in this paragraph.	
028	Refer to Page 8 Para. 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.	
028	Refer to Para. 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	

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	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).	
028	Refer to Para. 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.	
028	Refer to Para.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.	
028	Refer to Para.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.	

R#	ISSUE RAISED BY RESPONDENT	STAFF COMMENT
028	Refer to Para. 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).	
028	Refer to Para.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.	
028	Refer to Para.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.	
028	Refer to Para. 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.	
028	Refer to Para. 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.	

R#	ISSUE RAISED BY RESPONDENT	STAFF COMMENT
028	Refer to Para.5.5 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.	
028	Refer to Para. 5.16 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.	
028	Refer to Para. 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.	
028	Refer to Para.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	

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	the asset's value in use could be measured at the same amount as its replacement cost.	
028	Refer to Para. 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.	
028	Refer to Para. 5.16-5.21 Defining an entity's capital as its operating capacity (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.	
028	Refer to Para. 5.41 The comment in the third sentence appears to be an unsubstantiated assertion. The AASB suggests reviewing it.	
028	Refer to Para.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	

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	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.	

R#	ISSUE RAISED BY RESPONDENT	STAFF COMMENT
028	Refer to Para. 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.	
028	Refer to 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	

R#	ISSUE RAISED BY RESPONDENT	STAFF COMMENT
	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. 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.	
028	Refer to 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.	
028	Refer to 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 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.	
030	**"replacement cost"**	

R#	ISSUE RAISED BY RESPONDENT	STAFF 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.	