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January 23, 2013

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

Dear Ms. Fox:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its November 2012 Exposure Draft 3 - *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements* (ED). The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed the ED as well as the additional sections entitled Basis for Conclusions and Alternative View. The FMSB supports the IPSASB's conclusions and the proposed framework. We concur with the IPSASB's approach to this matter that the conceptual framework should not identify a single measurement basis (or combination of bases) for all circumstances. Rather the Conceptual Framework shall provide the relevant factors that will be considered by the IPSASB when reaching a decision regarding the measurement basis for assets and liabilities.

As shown by the recent work of the Government Accounting Standards Board and Federal Accounting Standards Advisory Board the issues being deliberated are growing more complex and the users of financial statements are asking for more information, measured in diverse ways. Therefore, a single basis of measurement is not always feasible or relevant. We support the IPSASB's approach and believe it will assist the IPSASB in their deliberations and development of solutions to the issues it will face. Our comments to the specific matters for comment in the ED follow.



### **Specific Matter for Comment 1**

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

**FMSB Response** -We agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objective of financial reporting. We do not believe that a measurement objective should be developed at this time.

### **Specific Matter for Comment 2**

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

**FMSB Response** - The FMSB agrees with the current value measurement bases identified in Section 3 of the ED.

### **Specific Matters for Comment 3**

Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

**FMSB Response** - The FMSB agrees with the fair value measurement model proposed in Section 4. We also agree with the IPSASB's decision to include the deprival model in the Concept Framework. This may assist in the determination of an appropriate measurement basis.

### **Specific Matter for Comment 4**

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

**FMSB Response** -We agree with the proposed measurement bases for liabilities in Section 5 of the ED.

We would like to thank you for allowing us to submit our comments to the exposure draft. Should there be any questions regarding our comments, please contact Steven Sossei at [ssossei@agacgfm.org](mailto:ssossei@agacgfm.org).

Sincerely,



Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Evelyn A. Brown, CGFM-Retired  
AGA National President

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Financial Management Standards Board**

**July 2012 – June 2013**

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Steven E. Sossei, Staff Liaison, AGA

## Conceptual Framework Exposure Draft Phase 3 – Measurement of Assets and Liabilities in Financial Statements: Request for comment

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### **Specific Matter for Comment 1**

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

The measurement basis selected should be selected based on how well it meets the objectives of financial reporting. A separate measurement objective is not required as the objectives and qualitative characteristics strive towards the same outcome of providing useful information to users.

### **Specific Matter for Comment 2**

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

Yes, we agree with the proposed measurement bases.

### **Specific Matters for Comment 3**

*Do you agree with the approaches proposed in Section 4 for application of:*

*(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and*

The fair value model as a tool for determining a suitable measurement basis to specify in a standard seems reasonable. However, having the fair value model included as a method for determining value in a standard could result in excessive compliance costs in calculating three values based on separate measurement bases to determine which should be used.

*(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.*

The deprival model as a tool for determining a suitable measurement basis to specify in a standard seems reasonable. However, having the deprival model included as a method for determining value in a standard could result in excessive compliance costs in calculating three values based on separate measurement bases to determine which should be used.

### **Specific Matter for Comment 4**

*Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*



We agree with the proposed measurement bases for liabilities.



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12 March 2013

Ms Stephanie Fox  
The Technical Director  
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277 Wellington Street West  
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Canada

Submitted to [www.ifac.org](http://www.ifac.org)

Dear Stephanie

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

As academics at the School of Accounting and Commercial Law in Victoria University of Wellington, we are pleased to make a submission on the above-titled Exposure Draft.

We are encouraged at the progress that the International Public Sector Accounting Standards Board (IPSASB) is making towards a full conceptual framework to underpin the standards issued by the Board. As you will note from the below comments, however, we believe that the IPSASB should agree a measurement objective in order to inform standard-setters' and preparers' decisions amongst different measurement bases. Following this decision, it is necessary in our view for the Board to re-issue this exposure draft to clarify and communicate their thinking around measurement issues.

We note that the International Accounting Standards Board (IASB) has also re-started its Conceptual Framework project and encourage the IPSASB to reconsider its Exposure Draft in the light of the IASB project. We think the definitions of words used in describing measurement bases and approaches should be aligned as far as possible with the IASB, or alternative terms utilised so as to avoid confusion.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tony van Zijl', written over a horizontal line.

Professor Tony van Zijl

Professor Kevin Simpkins  
Dr Rodney Dormer  
Dr Carolyn Cordery  
School of Accounting and Commercial Law  
Victoria University of Wellington

CC: New Zealand Accounting Standards Board

**Specific Matter for Comment 1:** Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

1. We agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting. This should be formalised in the form of a measurement objective. We regard the measurement objective stated at AV7 in the statement of Alternative View of Mr Ken Warren as an appropriate form for the measurement objective. (“To select those measurement attributes that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.”)
2. We further note that para 4.1. could be viewed as concurring with our suggestion above. That is, “The selection of a measurement basis is primarily taken by evaluating the extent to which it contributes to the objectives of financial reporting and meets the QCs”. By utilising a measurement objective, standard-setters and preparers’ would be able to rationalise and align different measurement bases and approaches so that they are as similar as possible internationally, allowing for public sector differences.
3. If a measurement objective was stated in the early paragraphs of the ED, the balance of the ED would be able to state the different options to support the measurement objective. Therefore the material currently in section 3 would become application guidance rather than, as it is currently, a listing of different options without guidance of when to use each option.
4. We note furthermore that without a measurement objective, there is a lack of coherence in overall standard-setting in that the messages IPSASB intends to be conveyed to users by key financial statement aggregates such as surplus or deficit are not supported by the measurement approaches taken. Selecting a measurement objective will of course influence the reported amount of such aggregates. Furthermore in future circumstances when there are no relevant standards, preparers and others such as auditors will have no conceptual basis for making measurement judgements and decisions.

**Specific Matter for Comment 2:** Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

1. Yes we agree with the principles of different measurement approaches, but we believe that the term ‘fair value’ should be included as a current value measurement basis in place of market value. We regard the attempt to distinguish between market value in active and inactive markets as an attempt to have market value regarded as being synonymous with fair value.
2. It would be helpful to rename ‘replacement cost’ as ‘optimised depreciated replacement cost’. This would explicitly recognise that the cost refers to replacement of the service potential rather than the actual asset. Paragraphs 3.20 and 3.21 explicitly recognise this need to value the optimised depreciated replacement cost.
3. While in the ‘normal case’ the diagram at para. 4.9. is appropriate, specific cases can be defined where the net selling price (net realisable value) is greater than replacement cost and



value in use. If net selling price exceeds optimised depreciated replacement cost it would in normal circumstances indicate that there is a redevelopment or redeployment opportunity associated with the asset. In that case there is an argument in the for-profit sector that its deprival value should be measured as net selling price (whereas application of the rule stated in Diagram 1, paragraph 4.1 would lead to measurement at replacement cost). This argument is developed fully in van Zijl and Whittington (2006).<sup>1</sup>

4. Some not-for-profit public sector entities which have assets with a net selling price (net realisable value) which is greater than replacement cost and value in use, may not be able to avail themselves of redeployment opportunities. This may occur when assets are held for cultural or environmental reasons, and the political environment actively discourages the entity from redeploying or redeveloping capacity. We encourage the IPSASB to further explore when these issues might arise, where conceptually these examples differ from the for-profit application, and to develop a framework which responds to such situations.
5. We recommend that consideration be given to changing to the definition of recoverable amount (in paragraph 4.11) adopted in IAS 36 *Impairment of Assets*, that is the higher of fair value less costs of disposal and value in use rather than the higher of net selling price and value in use.

**Specific Matter for Comment 3:** Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

1. We agree with the thrust of the proposed definition of fair value but would recommend that consideration be given to changing to the definition adopted in IFRS 13 *Fair Value Measurement* unless there are specific public sector reasons for not doing so.
2. Given the increasing use of fair value in financial reporting, the concept requires considerably expanded discussion from that provided in Section 4. The starting point should be IFRS 13 (FAS 52) with particular comment on issues specific to the public sector environment.
3. The fair value of operational assets held by public sector entities would normally be estimated by replacement cost and therefore there might be little practical difference between use of fair value and deprival value. However, application of deprival value, reinterpreted as in van Zijl and Whittington (2006), might usefully highlight the existence of redevelopment or redeployment opportunities associated with an operational asset (see our answer to specific matter for comment 2).

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<sup>1</sup> This might occur if an entity holds land and buildings in an attractive location which is not necessary for its own purposes. The replacement cost will reflect the lower optimal replacement cost for its present owner's use, but the net selling price will reflect the higher value realisable in an alternative use and reflected in the market price. Alternatively, in the case of plant and machinery, as well as property, the entity may own excess capacity. In such a case also, replacement cost will be based on necessary capacity, whereas net selling price will be based upon the actual capacity owned which might attract a higher value than the necessary capacity – this is not excess capacity where the cost cannot be recouped, but where the market price is greater than the value in use.

**Specific Matter for Comment 4:**

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

1. In our view fair value should be included as a measurement basis for liabilities and the Framework should draw on the considerable development of fair value for liabilities as articulated in IFRS 13 with adaptations for public sector matters where necessary.
2. The appeal of the concept of relief value underlying the discussion in Section 5 appears to be driven more by a quest for symmetry with deprival value (as in the conventional notion) than by consideration of the objectives for financial reporting. If this were aligned to a measurement objective, we are not convinced of any need for a measurement basis for liabilities other than historical cost and fair value.

**References:**

Van Zijl, T. and Whittington, G. (2006) "Deprival value and fair value: a reinterpretation and a reconciliation." *Accounting and Business Research*, 36(2): 121-130.







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Registrar/Chief Executive  
O.A. ADEPATE, B.Sc, MBA, FCA

March 19, 2013

Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board (IPSASB)  
259 Fifth Avenue, 6<sup>th</sup> Floor  
New York  
NY 10017

Dear Stephenie,

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

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above exposure draft and is pleased to submit its comments.

The Institute is particularly pleased to note the increased attention by the International Public Sector Accounting Standards Board (IPSASB) being paid to development of more transparent and wider acceptable accounting standards for the public sector, particularly at this time when concerns are growing for a more robust system and standards of accounting in the public sector across the world.

Detailed below are the Institute's comments in the context of the Conceptual framework Exposure Draft 3.





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## Specific Matter for Comment 1

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

**We agree.**

## Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which should not be included in the Framework?

**We agree.**

## Specific Matters for Comment 3

Do you agree with the approaches proposed in section 4 for application of:

- a) The fair value measurement model to estimate the price at which a transaction to sell an asset to take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons and
- b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not, please give your reasons.

**We agree.**



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## Specific Matter for Comment 4

Do you agree with the proposed measurement bases for liabilities in section 5? If not, please indicate which additional measurement bases should be included or which should not be included in the Framework?

**We agree.**

We thank you for giving the Institute the opportunity to contribute to the work of the Board.

Yours sincerely,

Mukaila A. Lawal

For: Acting Registrar/Chief Executive

## Swiss Comments to

### Exposure Draft Conceptual Framework 3: Measurements of Assets and Liabilities

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## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the intercantonal Conference of Cantonal Finance Directors (Finance Ministers at the States level). One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPCP has discussed *Exposure Draft Conceptual Framework 3: Measurements of Assets and Liabilities* and comments as follows.

## 2. General Remarks

In principle the SRS-CSPCP welcomes this paper and regards it as an important part of the Conceptual Framework.

### 2.1 Specific Matter of Comment 1

***Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons***

The SRS-CSPCP finds it positive that the IPSASB does not indicate and permit a dominant measurement method, but various measurement methods. The measurement methods for the individual assets must be governed in the relevant individual standards. Furthermore it would be important to mention that the choice of the measurement method matches the use (or the aim) of the asset (e.g. asset for earning profit = market value, asset not for earning profit = valuation at cost, net selling price or value in use).

### 2.2 Specific Matter of Comment 2

***Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework.***

The SRS-CSPCP agrees with the four proposals for calculating the fair value of an asset. In the public sector the value in use is important. It should be pointed out that in some cases this is difficult to calculate.

### 2.3 Specific Matter of Comment 3

***Do you agree with the approaches proposed in Section 4 for application of:***

- a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons***

Ja.

***b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not, give your reasons.***

The SRS-CSPCP is of the opinion, and expressed this already in the CP of June 2011, that the *deprival value model* is rather complicated and difficult to apply. As a rule there is no active market for *operational assets*. In these circumstances, the replacement cost, the value in use and/or the net selling price can only be estimated, which is not very pertinent and above all provides no added value. According to the principle of "cost-benefit" enshrined in the first phase of the Conceptual Framework, historical cost is the simpler measurement basis than the *deprival value model* offers.

## **2.4 Specific Matter of Comment 4**

***Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not to be included in the Framework.***

The SRS-CSPCP proposes providing for liabilities a definition of „market value“ symmetric with the one available and given for assets. Such a definition is not included in Section 5.6.

Lausanne, March 7, 2013



# Comments on

## IPSASB

### Conceptual Framework

### Exposure Draft 3

**“Measurement of Assets and  
Liabilities in Financial Statements”**

**David Edgerton FCPA**

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## INTRODUCTORY COMMENTS

It is with great concern that I provide the following feedback on the IPSASB Exposure Draft 3 covering the measurement of assets and liabilities.

I have over 25 years experience specialising in the valuation and depreciation of public sector assets using current replacement techniques. This included both as an auditor and as a valuer. In my early career this included implementation of the Deprival Value method across 125 local governments and numerous state government agencies.

While the Deprival method was useful in assisting agencies identify and place some initial values on their portfolios it quickly became evident that it had a number of major flaws. As a result the method was withdrawn and replaced with Fair Value and is consistent with Fair Value currently defined under the IFRS. Since that time it has been successfully employed and well understood.

My deep concern is sourced from the IPSASB view to effectively discount Fair Value as an appropriate method to value operational assets (despite a range of international jurisdictions successfully achieving this for many years and previous commentators recommending it) with a predisposition to push the UK version of Deprival Value which attempts to provide a value for a hypothetical asset and therefore is open to extreme manipulation.

I believe the IPSASB has a responsibility to pursue a path of harmonisation with the IFRS. Given that jurisdictions such as Australia have proven the robustness and objectivity of the Fair Value method for specialised public sector assets the IPSASB should be pursuing consistence with the IFRS.



**David Edgerton**  
**Fellow CPA Australia**

**2 April 2013**

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## SPECIFIC MATTERS FOR COMMENT

**Do you think that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objective of financial reporting?**

### **Yes**

The objectives should be the same as for all users of general purpose financial statements, irrespective of whether the entity is a public sector entity or private sector entity. The following extracts are taken from Statement of Accounting Concept SAC2 and should be applied to the IPSAS just as they are applied to IFRS.

The objective is to provide information to users that is useful for making and evaluating decisions about the allocation of scarce resources.

When general purpose financial reports meet this objective they will also be the means by which managements and governing bodies discharge their accountability to the users of the reports.

The provision of information for accountability purposes is an important function of the process of general purpose financial reporting, particularly in relation to public sector entities and non-business entities in the private sector. However, the rendering of accountability by reporting entities through general purpose financial reporting is encompassed by the broader objective of providing information useful for making and evaluating decisions about the allocation of scarce resources, since users will ultimately require the information for resource allocation decisions.

General purpose financial reporting focuses on providing information to meet the common information needs of users who are unable to command the preparation of reports tailored to their particular information needs. These users must rely on the information communicated to them by the reporting entity.

Financial reports, comprising financial statements, notes, supplementary schedules and explanatory material intended to be read with the financial statements, are the principal means of communicating financial information about a reporting entity to users.

General purpose financial reporting also provides a mechanism to enable managements and governing bodies to discharge their accountability. Managements and governing bodies are accountable to those who provide resources to the entity for planning and controlling the operations of the entity. In a broader sense, because of the influence reporting entities exert on members of the community at both the microeconomic and macroeconomic levels, they are accountable to the public at large. General purpose financial reporting provides a means by which this responsibility can be discharged.

While business entities seek to earn profits or desired rates of return and non-business entities pursue primarily non-financial objectives, both types of entities provide goods and services to the community and use scarce resources in the process; both obtain these resources from external sources and are accountable to the providers of the resources or their



representatives; both control stocks of resources; both incur obligations; and both must be financially viable to meet their operating objectives.

**Do you agree with the current value measurement bases for assets that have been identified in Section 3?**

**No**

The Fair Value basis as defined in IFRS13 Fair Value Measurement should be specifically included. Currently it is partly included under the Market Value approaches and noted in section 4 as being an appropriate basis.

Inclusion would ensure consistency and harmonisation across the IFRS and IPSASB. The Deprival Value method (Replacement Cost, Net Selling Price and Value in Use) as applied under this ED should be removed. They are inconsistent with much of the wording with the ED as well as the IFRS and International Valuation Standards.

It should also be noted that the explanation and definition of Replacement Cost is inconsistent with Replacement Cost under the IFRS and International Valuation Standards.

The concepts embodied within Net Selling Price and Value in Use are appropriately covered in IFRS standards (such as IAS36 and IAS16) and therefore for consistency and harmonisation the measurement basis should be identical to the IFRS).

**Do you agree with the approaches proposed in section 4 for application of the Fair Value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions**

**Yes.**

However this basis should also extended to all assets.

**Do you agree with the approaches proposed in section 4 for application of the deprival value model to select or confirm the use of a current measurement basis for operational assets.**

**No.**

This document provides a range of reasons why the deprival method as explained (UK version of Deprival) should not be used. These are discussed in the major issues section of this paper and include –

- Difference between UK and other versions of Deprival Value
- Inability to reliably measure Depreciation Expense under Deprival Method
- Complexity and Inefficiency of Proposed Approach
- Inconsistency of Results and open to manipulation

## DETAILED COMMENTS

Para	Comments
1.1	<p>The ED notes that it does not consider application to GPFS. This is of particular concern. The approach recommended by the ED is contrary to the IFRS and as a result it raises serious concerns over the motivation of the IPSASB to pursue a path contrary to that which the accounting profession has been trying to achieve for many years through the international harmonisation process.</p> <p>The reality is that many public sector entities are required to have their financial results consolidated into Whole of Government accounts which are required to be prepared under the IFRS. Some of these entities are commercial or for-profit entities and due to various jurisdictional legislation are compelled to prepare their financial statements in accordance with the IFRS.</p> <p>The existing measurement basis under the IPSASB are consistent with the IFRS and in some jurisdictions (such as Australia) the IFRS standards have been successfully enhanced to take into account the special circumstances of the public sector. This has ensured consistency with the IFRS and the existing IPSAS.</p> <p>Any attempt to require entities value assets and liabilities using methods which are contradictory with the IFRS will only result in significant additional duplication of effort, inefficiency and ultimately confusion by those who use the financial statement prepared by the public sector entity.</p> <p>As the impact of this ED is far reaching it is essential that the valuation basis be retained to ensure consistency with the IFRS.</p>
1.2	<p>This paragraph notes that the measurement basis is also important due to its impact in other financial statements. This of course includes depreciation expense which is charged as an expense in the Statement of Financial Performance.</p> <p>However the ED deals solely with the valuation measurement basis and does not appropriately analyse the resulting impact (or practicalities associated with a change in measurement basis) on the other statements. The ED only deals at a theoretical level without any discussion given to how depreciation expense would be measured or calculated.</p> <p>In practice the Deprival Value is open to manipulation and the results cannot be supported by sufficient and appropriate audit evidence. Given the risks and practicalities the ED should recommend the use of Fair Value only.</p> <p>Further discussion on this is covered later in this document under “Major Issues”.</p>

1.3	<p>This paragraph notes a range of aspects important to decision makers using the financial statements. One of these is the “cost of services provided in the period”.</p> <p>However the he recommendation to adopt the UK version of Deprival Value however does not result in the calculation of an accurate measure of depreciation expense and as a result will not satisfy this need. By definition the deprival method measures a theoretical scenario which would only exist if the entity was completely efficient rather than measuring the actual assets it controls and actual value of service potential consumed during the year.</p> <p>Further discussion on this is covered later in this document under “Major Issues”.</p>
1.4	<p>This paragraph notes a range of qualitative characteristics which are important. However the proposal to adopt the UK version of Deprival Version does not provide faithful representation, understandability, comparability or verifiability.</p> <p>The primary reason for this is that he UK version of Deprival Value does not measure the service potential embodied in the existing asset but instead measures what it would be given a theoretical scenario. For example I may have an asset at replacement cost of \$1 million, costs \$50,000 to maintain annually and its depreciation expense is estimated at \$25,000. However under the proposed UK version of Deprival Value it could be argued that the asset is much larger than needed or would be built in a different location or even design. As a consequence the theoretical asset is valued at \$200,000 with a resulting depreciation expense of \$5,000. In reality both the value and depreciation expense figures are purely theoretical and do not reflect reality. As a consequence they do not satisfy the qualitative characteristics as stated.</p> <p>Further discussion on this is covered later in this document under “Major Issues”.</p>
1.5	<p>This paragraph is under the heading of entry and exit values but simply concludes that many public sector assets are specialised. It does not make any real point.</p> <p>The issue of the appropriateness of exit values has recently been covered in IFRS13 Fair Value Measurement where the statement is quite clearly made that in any efficient market the purchase price (entry price) by definition will always equal the sales price (exit value). IFRS13 further states that for specialised public sector asset the replacement cost is the appropriate method to determine the exit price.</p> <p>To ensure consistency and harmonisation of the accounting standards as well as efficiency in consolidation the adoption of the ‘exit price’ should be adopted as per IFRS13.</p>

1.7	<p>The paragraph states that it does not prescribe a single or combination of measurement basis.</p> <p>This is a misrepresentation. In reality the ED proposes the adoption Fair Value (where there is an active market) of the UK version of Deprival Value (which is quite complex and requires the determination of three different values) for operational assets while ignoring Fair Value. The UK version of Deprival is also significantly different in approach to other versions of Deprival Value.</p> <p>While section 4 proposes two approaches (Fair Value or UK version of Deprival) the associated discussion in section 3 (and table 1) indicate that Fair Value should only be used to determine Market Value. This is inconsistent.</p> <p>Fair Value has been successfully used in a range of international public sector jurisdictions for any years and the public comments provided in the development of this ED were very supportive of Fair Value. Deprival Value was also used initially in some of these jurisdictions but was quickly dropped in favour of Fair Value because it had inherent problems.</p> <p>The non-inclusion of Fair Value suggests a bias by the IPSASB towards a particular approach and raises concerns regarding the over-riding motivation to adopt the UK version of deprival. For example –</p> <ul style="list-style-type: none"> <li>• Is it to maintain the status of IPSASB and the need to continually create their own unique accounting standards rather than simply enhance the existing IFRS standards which has been successfully done in a range of jurisdictions?</li> <li>• Is it to ensure asset values are kept artificially low to minimise the amount of tax paid by local government entities to central government?</li> </ul>
2.5	<p>I agree that the financial statements should reflect the current cost of both the asset value and its associated depreciation expense and as a result for material public sector assets the use of current cost is preferred.</p> <p>However the paragraph can be interpreted as confusing the concept of depreciation and the <i>future cost of providing services</i>.</p> <p>Depreciation expense is recorded in the Statement of Financial Performance to record an estimate of the loss of service potential or reduction on the value of the asset due to consumption. Assuming an asset's service potential is consumed in a constant pattern over a 50 year period the rate of depreciation should be 2% per annum.</p> <p>However this is very different from the <i>future cost of providing services</i>. These are the asset lifecycle costs which include the cost of acquisition, operation, maintenance, renewal and disposal. None of these figures are repeated in the financial statements and depreciation expense is not a defacto measure of the future funding needs. The <i>future cost of providing services</i> should be determined from the entity's asset management plan.</p>

2.7	<p>This paragraph argues that historical cost does not provide any useful information on the financial capacity of an organisation. I would agree.</p> <p>However this paragraph focusses on the value of assets in order to be used as collateral in obtaining borrowings. This context is inappropriate for the public sector and is based on a traditional commercial scenario of needing assets that can be sold to pay back loans. In the public sector the nature of the assets held are not of a type that can be sold and entities usually are either funded by appropriation or grants or have the legislative ability to raise revenue through rates, taxes or fees and charges.</p> <p>The financial capacity of public sector entities is more about the ability of the entity to continue to operate and maintain its asset base so as to continue to provide the appropriate level of services to the community. Commonly this is referred to as Financial Sustainability and is often assessed using a range of KPIs.</p> <p>While historical cost does not provide any useful information neither does the Deprival Value proposed by the ED. This is because the UK version of Deprival Value is based on a theoretical scenario rather than what actual exists. The most appropriate basis to provide reliable estimates of the value of remaining service potential and the rate of consumption of that service potential is the Fair Value basis.</p>
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3.1 & 3.2	<p>This section deals with different basis and categorises them into whether they are an entry/exit price and whether or not they are supported by observable market evidence.</p> <p>As previously noted the table and discussion only focusses on Fair Value where the valuation approach is the market approach and the UK version of Deprival for all operational assets.</p> <p>The table should be enhanced to include a heading for Fair Value methods (including market, income and cost approach per IFRS13) and UK Deprival method (for replacement cost, net selling price and value in use). (Assuming of course that the UK version of Deprival remains a valid alternative)</p> <p>However no differentiation is provided between Replacement Cost (per UK Deprival method) and Replacement Cost (per Fair Value). These are fundamentally different and when calculated result in materially different results. The table should be updated to reflect the difference in approaches between UK version of Deprival and Fair Value. This is covered in more detail in the “Major Issues” section.</p> <p>IFRS13 clearly determines that the Cost Approach (based on the Replacement Cost) used to determine Fair Value is an ‘exit price’. This is contradictory to Table 1. Under the UK version of Deprival Value the Replacement Cost represents what the specific entity would need to pay to acquire an asset that delivers the same service (different form same level of service potential) in the most efficient location or based on better design. This represents an ‘entry’ price for the specific entity.</p> <p>However under IFRS13 the Replacement Cost is based on the highest and best use that market participants would be prepared to pay and takes into account the entire service potential embodied within the asset. As a consequence it represents an ‘exit’ price and is a market price.</p>
3.3	<p>To ensure international harmonisation of the accounting standards and to ensure the general purpose users are not confused with different definitions the definition of Market Value should be updated to be consistent with the IFRS13 definition of Fair Value.</p> <p>The definition used is the same as the old definition of Fair Value (under both IFRS and IPSAS). The Market Value as defined should result in the same value as the market approach under IFRS13.</p>

3.5	<p>This paragraph states that “in practice few, if any, markets fully exhibit all of these characteristics, but some may approach this description”.</p> <p>This is incorrect and I would suggest deliberately used as an argument against valuing specialised assets using market evidence. The public sector is responsible for the acquisition and renewal of billions of dollars of infrastructure assets. These are procured via a range of processes which include quotation and open tender process. There are a vast array of suppliers willing to supply services/assets and there is a high frequency of transactions.</p> <p>As a consequence there is considerable observable market evidence of key assumptions that could be used to determine the value of specialised public sector assets.</p>
3.8	<p>A statement is made that “exit based prices .... Are unlikely to be useful for many operational assets”. It further tries to argue that the value of operational assets may be greater than its purchase price.</p> <p>Both statements are of great concern. No argument or evidence is provided to support these assertions which I argue is grossly incorrect. It should be noted that a range of jurisdictions the ‘exit’ price model (per IFRS13 and existing IPSAS17) has been used successfully to determine the value of operational assets. Is the IPSASB saying that the IFRS and jurisdictions that apply Fair Value have got it wrong?</p> <p>Even if the value to the entity may be theoretically more than what it costs to acquire the asset such service potential cannot be reliably measured. The true determinant of value is what a market participant is willing to pay for an asset given its highest and best use. This coincidentally is the definition of Fair Value and is another reason why the valuation basis should remain as Fair Value.</p>
Footnote 3	<p>This ED seems to have a preference for using “for-profit” arguments and terms despite the IPSAS relating to the public sector which by definition is “not-for-profit”. This footnote quotes a definition specifically designed for “for-profit” entities and does not consider what is an “open, active and orderly market” for the public sector.</p> <p>It could be argues that in the public sector there is always evidence of the market value for most assets. The recently issued ED by the IVSC specifically states that market value equals the Fair Value.</p> <p>It does not makes sense to try and value some assets as non-entity specific (market value) and others as entity specific (deprival). Such an approach is inconsistent with the IFRS as well as the International Valuation Standards.</p> <p>This continues to raise concerns over the motivations of the IPSASB to propose a change to Deprival Value rather than maintaining consistency with the existing IPSAS, IFRS and IVSC.</p>



3.10	<p>This paragraph focusses on the “profit motive” rather than acknowledging the role the public sector plays in being responsible for the provision of services. Why the focus on private sector profit motive rather than the public sector environment?</p> <p>This paragraph fails to acknowledge that the general public also have a right to understand the size and value of assets controlled by the public sector (using their public monies) and whether the relative wealth of those assets has increased or decreased in value.</p> <p>Previous paragraphs have already highlighted the importance of adjusting prices to reflect current values. Therefore it makes sense that the public should be provided with accountability around what those values are.</p>
3.11	<p>This paragraph highlights the confusion between the concept of depreciation (measures the value of consumption of the service potential) and the cost to provide the service (lifecycle costs).</p> <p>The pricing decision has nothing to do with depreciation. To ensure intergenerational equity the pricing decisions should be based on the actual lifecycle costs to deliver the service. With good asset management planning and frameworks the cost to deliver those services will be lower than if the asset management planning was poor. Hence the pricing should be based on the actual costs to deliver the service.</p> <p>Depreciation on the other hand measures the value of the loss of service potential consumed through usage. This figure is significantly different than the average annualised cost calculated from asset management plans.</p>
3.12	<p>Once again this paragraph is base around the commercial environment of “for-profit” entities rather than the not-for-profit environment of the public sector. The focus is one how much the entity could realise from a sale.</p> <p>Based on this it argues that users of the financial statements have no use of information about changes in revenues and expenses related to changes in market value.</p> <p>I strongly disagree with this assertion. No argument is put forward for such an assertion and this no doubt is linked to the pre-occupation with trying to apply commercial for-profit concepts to the not-for-profit public sector.</p> <p>In simple terms the difference between the assets and liabilities of a public sector entity represent the net wealth of the community’s assets (community equity). Various jurisdictions around the world have previously adopted Fair Value as the measurement basis and report via reports to parliament on a range of KPIs using the financial statements. The resulting net surplus/deficit and movements in the community equity are an essential element to understanding whether a government entity’s net wealth has increased or decreased and the rate at which the service potential of the assets is being consumed.</p>



3.13	<p>The paragraph makes the statement that “if exit-based market values are significantly lower than historical cost market value is likely to be less relevant than historical cost”.</p> <p>No argument is provided to support this assertion. If there is significant movement in the market value of assets resulting in a significant reduction below the historical cost: the financial statements should reflect the loss of value as the community deserves full accountability. Did the loss result from poor procurement and paying over-priced acquisition costs? Has there been a change in the market or technology resulting in changes to how services are to be delivered?</p> <p>The financial statement disclosures should address these issues if material and the Fair Value basis of measurement will take them into account.</p>
3.16	<p>The section states that “exit based values are only likely to be relevant to assessments of financial capacity and not to assessments of the cost of services and operational capacity”</p> <p>This statement reeks of a predisposition to cash accounting rather than accrual accounting. To preserve intergenerational equity it is important that each generation pays its fair share. This includes funding the cost of acquisition, operations, maintenance, renewal and disposal. It is important that current cost be used to determine the true cost of providing the service. Previous paragraphs have highlighted the inability of historical cost to provide meaningful information.</p> <p>Many public sector assets are different to private sector assets purely because of their function and the need to maintain their capability through renewal for many generations. These are commonly referred to as cyclical maintenance assets. Due to the changing price of money over time the cost to upgrade, renew or even maintain these assets may be far greater than the historical cost of the original acquisition.</p> <p>Form an accountability perspective, if the current cost of an asset has increased significantly it is important that the depreciation expense figure also be reported using values based on market evidence.</p>

3.17	<p>The definition of replacement cost should be replaced with that used by the IFRS to ensure harmonisation and reduce confusion among users of financial statements.</p> <p>This definition of Replacement Cost provided by the ED is</p> <p><i>The most economic cost required for the entity to replace the service potential of an asset (including the amount an entity would receive from its disposal at the end of its useful life) at the reporting date”.</i></p> <p>This definition is sometimes referred to as the “UK version of Deprival” as it is significantly different to that provided under the IFRS and specifically excludes from the valuation some aspects of the full service potential of the asset. It is also different to the pure definition of deprival value and that used in Australia in the 1990’s.</p> <p><i>Deprival value is based on the premise that the value of an asset is equivalent to the loss that the owner of an asset would sustain if deprived of that asset. (wiki)</i></p> <p><i>Deprival value is described as the cost to an entity if it were deprived of an asset and was required to continue to provide goods and service or deliver programs using that asset. (1994 GUIDELINES ON ACCOUNTING POLICY FOR VALUATION OF ASSETS OF GOVERNMENT TRADING ENTERPRISES)</i></p> <p>The biggest differences in definition are that the UK version only places value on that part of the service potential used by the entity and assumes the asset is designed, constructed, located and operated in the most economically way.</p> <p>As a consequence it excludes any service potential (in excess of that used to deliver services) that would be lost to the entity if it were deprived of it. To demonstrate –</p> <p>Assume the entity controlled land in the middle of a CBD but only used it for tennis courts. Under the UK version of deprival value the replacement cost may be based on locating the tennis courts in a less valuable area of the City and hence the value would be much lower than what other market participants would be prepared to pay for the actual site they are located.</p> <p>Under the IFRS and other definitions of deprival the replacement cost would be based on the highest and best use of the actual site and what potential market participants would be prepared to pay. In this case they might be prepared to pay \$1 million whereas under the UK deprival approach the value may only be reported as \$100,000.</p> <p>In reality , if the entity were deprived of the asset, there true loss would be \$ 1 million not a theoretical \$100,000.</p>
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3.18 (b)	<p>The statement about replacement cost (in the public sector context) being an entry value is incorrect.</p> <p>This is only the case when you adopt the narrow UK version of deprival. Under all other deprival methods and Fair Value the replacement cost is an 'exit' price. Both the IVSC and IFRS clearly indicate that the replacement cost in the public sector context is an 'exit' price.</p>
3.20	<p>The first sentence indicates that the replacement cost is the cost of replacing an asset's service potential.</p> <p>However, as noted under 3.17, the definition used under the UK version of deprival does not do this. The ED explicitly excludes some aspects of the service potential.</p> <p>This statement would however be true for assets valued at Fair Value under IFRS or the other versions of Deprival.</p> <p>This suggest the authors of the ED are confused themselves about what is being proposed.</p>
3.21	<p>This paragraph provides an insight into the way in which the recommended approach can be manipulated in order to achieve a desired result for financial reporting. Rather than deal with the actual asset in existence it provides the entity with an opportunity to create a theoretical scenario which suits their purpose. Hence the valuation becomes increasingly more subjective and does not provide the reader with an understanding of the actual service potential embodied within the assets.</p> <p>This example demonstrates that the proposed approach</p> <ul style="list-style-type: none"> <li>• does not take into account the residual service potential that is also available to the entity. For example the sale of excess land or buildings or income that might be produced from alternative use of the excess buildings.</li> <li>• Creates a total disjoint between the actual asset that exists and what the future asset management requirements and funding needs might be. In reality the school might include 10 buildings that need to be maintained but the valuation and associated depreciation is based on only 3 or 4 buildings of completely different design.</li> <li>• Provides no accountability to the community and is open to manipulation</li> <li>• Provides no mechanism (due to the theoretical nature of asset swchich do not exist and cannot be inspected) to enable the objective measure of depreciation expense. If you can't see a building (because it does not exist) how can you objectively measure the level of remaining service potential (Replacement Cost less accumulated depreciation) and the amount of depreciation expense?</li> </ul>

3.22	<p>Again the concept of what replacement cost measures is inconsistent with the definition and example provided in 3.21. This paragraph states that it reflects “all (and only) the service potential that the asset embodies is reflected in the recognised amount”.</p> <p>This is untrue. The example and definition clearly indicates that it excludes an service potential not required by the entity to deliver the specific service in the most economical way.</p> <p>If the objective of the exercise is to measure “all” of the service potential embodied in the asset it would be better to adopt the IFRS definition of replacement cost.</p> <p>As accounting setters it is inconceivable that the IASB and IPSASB would puit out different definitions of Replacement Cost.</p>
3.24	<p>This is an argument as to why Replacement Cost under IFRS should be used as the basis for depreciation. By using the UK version of Deprival the depreciation is based on only part of the service potential of the asset and therefore does not represent to true value of service potential consumed.</p>
3.29	<p>Once again this demonstrates a narrow focus based on a commercial operation. In the case of public sector entities the financial capacity is NOT based on the ability to sell assets to meet future needs. It is about the ability to continue to provide services taking into account the cost to provide the services (asset lifecycle costs – acquisition, operation, maintenance, renewal and disposal) and the potential sources of revenue to fund the delivery of the services.</p> <p>Depreciation measures the estimated loss of service potential consumed over the year and accordingly should be based on the full service potential of the asset valued at current cost (per IFRS) not based on a theoretical efficient scenario that only takes into account the currently used portion of the asset’s service potential (UK version of deprival).</p>
4.9	<p>The wording of this paragraph is inconsistent with the definition of replacement cost. This paragraph supports the normal view of replacement cost under IFRS and other deprival models that the replacement cost reflects the loss the entity would sustain if it were deprived of the asset.</p> <p>The definition used in this ED is the UK version of Deprival which specifically excludes the service potential that exists in the asset but is not currently being used by the agency.</p>

## MAJOR ISSUES

### Difference between UK and other versions of Deprival Value

Throughout the ED there are a range of inconsistencies which highlight the differences between Deprival Value (as applied in the UK) and Deprival Value (elsewhere).

The fundamental difference is that the UK versions (as proposed by the ED) only values the service potential embodied in the asset that is being currently used by the entity and then adjusts it to assume the operation is as economically efficient as possible. As a result it does not report on the actual asset in existence but on a theoretical scenario that might never exist.

In comparison the traditional views of Deprival and Fair Value under the IFRS are consistent that the Replacement Cost represents the full service potential embodied within the asset – even if it is not be utilised efficiently by the agency. The value can be determined by considering the highest and best use that market participants would be prepared to pay to acquire that asset's service potential. The following example has been developed to demonstrate the differences in approach.

#### Assumptions

Asset is a school located in CBD environment.

Originally constructed 100 years ago on land which was then on edge of town.

Current Actual Assets		Replacement Cost	WDV
Land	10 hectares	3,000,000	
Buldings	500 students capacity	12,000,000	7,000,000
		15,000,000	7,000,000
Optimise theoretical scenario		on same site	different site
Land	2 hectares	600,000	500,000
Buldings	100 students capacity	2,400,000	2,400,000
		3,000,000	2,900,000
Net selling price		7,000,000	

Fair Value under the IFRS would be determined as follows –

## Fair Value

Land is based on the Market Value or Replacement Cost of the existing land 3,000,000

While the school only requires 50% of the space the still use all buildings which provides for greater space and the ability to use spaces for specific purposes. Likewise, because it is in a CBD environment, the rooms are used by a range of community groups.

Based on modern equivalent construction the GRC was 12,000,000  
 After assessing condition and allowing for depreciation the DRC was 7,000,000

However under the Deprival Method there are three alternative methods to use. Each depends on the definition of what constitutes the Replacement Cost (all or part service potential) and whether or not optimisation is applied on a gradual incremental basis or based on a purely theoretical fully optimised scenario. The steps involve the determination of Replacement Cost, Value in Use and Net Selling Price. This example also demonstrates the additional complexity and effort required to determine the Deprival Value.

## Replacement Cost

If value all the service potential in the asset the Replacement Cost will be same as per Fair Value. In this case if the entity was deprived of the land it would lose the full market value of the land that other market participants would be prepared to pay. This is an opportunity cost representing potential lost future revenue.

However, if optimised to what the entity would require to continue operations the size of land and number of buildings would reduce. This excludes the service potential embodied in the asset that is not needed for operational purposes.

	If replaced ALL service potential	If replaced with only what is needed
Land	3,000,000	600,000
Buildings		
Replacement Cost	12,000,000	2,400,000
Depreciated Replacement Cost (assume same apportionment)	7,000,000	1,400,000

### Value in Use

The most efficient way to operate the school would be to have built it on the outskirts of town on much cheaper land. This excludes the service potential existing in the asset that would not be required by the entity if it could build a theoretical facility in a new location

	If moved to a different site
Land	500,000
Buildings	
Replacement Cost	2,400,000
Depreciated Replacement Cost	1,400,000

### Net Selling Price

This is based on analysis of what others may pay for the assets for alternative uses.

As the land is in a prime CBD site other users may be prepared to pay significant funds to redevelop the site for residential, retail or other commercial uses.

This may include keep the existing buildings and either using for commercial purposes or re-fitting as inner CBD residential and retail.

The following Net Selling Prices (after allowing cost of conversion) have been determined by a valuer.

	Net Selling Price
Land	3,000,000
Building (balance of sales price)	4,000,000
	<u>7,000,000</u>

### Determining the Deprival Value.

The following provides three different interpretations of the calculation of Deprival Value and compares them to what Fair Value would be calculated as under IFRS.

#### **LAND**

	If replaced ALL service potential	If replaced with only what is needed	If moved to a different site
Relisable Value (higher of)			
Value in Use	3,000,000	600,000	500,000
Net Selling Price	3,000,000	3,000,000	3,000,000
	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
Replacement Cost	3,000,000	600,000	500,000
Deprival	<u>3,000,000</u>	<u>600,000</u>	<u>500,000</u>
Fair Value	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
Service Potential not recognised	-	2,400,000	2,500,000

## BUILDING

	If replaced ALL service potential	If replaced with only what is needed	If moved to a different site
Relisable Value (higher of)			
Value in Use	7,000,000	1,400,000	1,400,000
Net Selling Price	4,000,000	4,000,000	4,000,000
	7,000,000	4,000,000	4,000,000
Replacement Cost	7,000,000	1,400,000	1,400,000
Deprival	7,000,000	1,400,000	1,400,000
Fair Value	7,000,000	7,000,000	7,000,000
Service Potential not recognised	-	5,600,000	5,600,000

The net result is a significant variation between the values depending upon the differences created between the actual asset and its scenario and the theoretical scenario created for the purposes of producing a Deprival Value.

The first scenario is the method applied in Australia in the 1990's whereas the other two scenarios are different example of the UK version of Deprival. This highlights the extreme risks associated with how the Deprival method can be manipulated to produce desired results for financial reporting, taxing or other purposes.

	If replaced ALL service potential	If replaced with only what is needed	If moved to a different site
<b>TOTAL</b>			
Fair Value	10,000,000	10,000,000	10,000,000
Deprival	10,000,000	2,000,000	1,900,000
Variance	-	8,000,000	8,100,000
	0.0%	-80.0%	-81.0%



## Inability to reliably measure Depreciation Expense under Deprival Method

The determination of the value is only part of the asset accounting equation. Having determined the value an allowance must be made in the Statement of Financial Performance for Depreciation Expense.

Under Fair Value this is achieved by –

- Componentising the asset
- Determining the -
  - Replacement Cost
  - Residual Value
  - Asset Condition
  - Pattern of Consumption
  - Useful Life

As part of the audit process the auditor assesses the reasonableness of the methodology and obtains sufficient and appropriate evidence over key assumptions. This might include sighting evidence of costs and unit rates, reviewing the asset management plan to obtain reasonable assurance over residual values and useful life, sighting the valuers inspection notes and support for the pattern of consumption.

However, under the UK version of the Deprival method the assets being valued and depreciated may not physically exist as they have been created in a theoretical and hypothetical world. In reality there may be 10 buildings with each component in different condition and subject to different environmental or other factors.

Because the Deprival Value scenario is hypothetical there is no way for a valuer to physically inspect the assets or potential even try and create a link between what exists and the hypothetical scenario. If you are unable to assess condition (because it is a hypothetical building) the valuer cannot determine the level of consumed service potential nor devise a method to ascertain the rate of consumption of that service potential.

Likewise, because the asset does not physically exist and there is no evidence to support the depreciation assumptions, the auditor is unable to obtain sufficient and appropriate audit evidence. As with the example valuation, this highlights the extreme risk of adopting the UK version of Deprival and its ability to be easily manipulated to achieve desired results.

In order to ensure accountability and transparency the ED should only recommend robust and objectives methods (such as Fair Value) that have been repeatedly proven in the filed across a range of jurisdictions.

## Complexity and Inefficiency of Proposed Approach

The example valuation highlights the additional steps and complexity of undertaking a valuation using the UK version of Deprival.

The steps to determine Deprival are all in addition to determining Fair Value under IFRS. It should also be noted that for insurance purposes the valuer will determine the replacement cost of the existing asset (as with Fair Value) prior to adding additional allowance for demolition, reconstruction costs, professional fees, etc.

Deprival requires taking the Fair Value replacement cost and then adjusting it further to eliminate any surplus service potential not currently required by the entity.

It then requires the determination of the Value in Use and Net Selling Price. Each may require extensive analysis and discussion on alternative design, location and operation.

Given that these steps are all in addition to the calculation of Fair Value it would be far more efficient and less costly to simply require all entities to value at Fair Value. In addition to being a less costly process it would also result in harmonisation with the IFRS and the ability for easy consolidation into Whole of Government Accounts.

## Inconsistency of Results and open to manipulation

The results in the example valuation highlights the inconsistency of results and ability of entities to manipulate the results to suit their own purposes.

The process becomes extremely subjective, open to interpretation and very difficult for auditors to obtain sufficient and appropriate evidence.

As the purpose of the financial statements is to provide a mechanism for accountability it is important that the results reported by as objective as possible and the users can rely on the accuracy of the results as being a true and fair view of the performance of the entity.

The proposed Deprival Method does the opposite and raises concerns over the motivation for the IPSASB to recommend such an approach which is arguably designed for deliberate manipulation.

April 8, 2013

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 8th Floor  
Toronto, Ontario M5V 3H2 CANADA

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

Thank you for the opportunity to provide our perspectives on the proposals in this Exposure Draft (ED). We would like to express our support for this important effort and we hope our comments will contribute to its successful advance.

Significant progress has been made by the Board and its staff towards the inclusion of a useful guidance on the topic of measurement in the proposed conceptual framework. This accomplishment is noteworthy as measurement has been cited as the most under-developed area of current conceptual frameworks, including our own.

A member advanced an alternative view premised on the need to include a measurement objective in the conceptual framework. Aspects of Mr. Warren’s approach and its application resonated with us. While we do not support all of Mr. Warren’s positions, there is merit in assessing whether a measurement objective can be identified.

Given the scope of the broader undertaking to develop a new conceptual framework, IPSASB has understandably divided the task into components. Once each component has been exposed, we encourage IPSASB to give pause and to challenge whether the components integrate effectively. Thru such a process it may be possible to clearly focus on a measurement objective.

We strongly support the need to distinguish between financial and non-financial assets in public sector financial reports. Doing this enhances the usefulness of the financial information by reporting financial capacity separate and apart from operating capacity. PSAB has long held this to be a key distinguishing characteristic of public sector financial reporting.

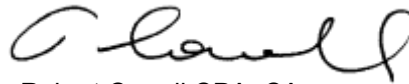
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We appreciate the opportunity to comment on this ED. We are very supportive of IPSASB's conceptual framework initiative and wish IPSASB success in integrating these proposals with other phases of the framework and the key characteristics document.

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

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

Sincerely,



Robert Correll CPA, CA  
Consultant  
Public Sector Accounting

**Appendix A**  
**Responses to Specific Matters for Comment**

**Specific Matter for Comment 1:**

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

**A:** Discussing and settling on a measurement objective may help to integrate the components of the project. The measurement objective set out in the alternative view of Mr. Ken Warren strikes us as being consistent with aims set out in the ED and is a good starting point. Our views on the application of this measurement objective are provided in our response to matter 3.

**Specific Matter for Comment 2:**

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

**A:** The list of current value measurement bases is useful and complete.

However, in our view the statement in paragraph 3.4 is too limiting. Paragraph 3.4 states “market value is particularly appropriate where the asset is being held for sale...”. Without further explanation, some may interpret the words *held for sale* narrowly, avoiding the use of market value although a price obtained in an open, active and orderly market can be readily obtained. A specific suggestion to address this matter is given in Appendix B.

We agree with the statements in paragraphs 3.7 and 3.8 about the suitability of market value and the limitations in its usefulness, including the statement that “exit-based market values... are unlikely to be useful for many operational assets.”

Paragraphs 3.24 and 3.25 discuss the application of replacement cost when measuring the cost of services. The assertion is made that “replacement cost provides a relevant measure of the cost of the provision of services.” In our view, the supporting discussion is not sufficiently balanced, as it reflects the presumption that cost of service should incorporate the cost of asset replacement. In our view, the relevance of this measure is rebuttable, as many users seek accountability in relation to past decisions.

A measure of the cost of service based on replacement cost is of value in setting future rates. Setting future rates is a management exercise, whereas a principal aim of financial reporting is demonstrate management’s accountability. In many jurisdictions, this accountability is reported in relation to the plan or budget adopted by the oversight body. To ensure considerations associated with sustainability are not overlooked, supplementary information reported on in relation to specific key services could be reported.

**Specific Matter for Comment 3:**

*Do you agree with the approaches proposed in Section 4 for application of:*

- (a) *The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and*

*orderly market at the measurement date under current market conditions. If not, please give your reasons; and*

- (b) *The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.*

**A:** Public sector financial statements should distinguish a public sector entity's financial capacity from its operating capacity. This enhances the information available to users who wish to assess the extent of the resources available to meet financial claims or which can be transformed into operating capacity. We agree with Mr. Ken Warren's assessment that current prices and exit based prices provide the most useful information about financial capacity. The most relevant substitute measure applies when application of for current prices and exit based prices are not practical of faithful representation. The judgment as to practicability of faithful representation can be made at a standards level.

In the case of financial instruments, the PSA Handbook requires derivatives and equity instruments quoted in an active market to be measured at fair value. Public sector entities the option of extending fair value measurement to other financial instruments when it is consistent with a risk management or investment strategy has been defined and implemented at the reporting entity level.

We support the assertion that the bases of measurement used when reporting on operating capacity and the cost of services need to be useful, both in holding the entity to account and for decision making purposes. As determining the most faithful representation of operating capacity is more problematic, it may be that this judgment is best applied at the standards level.

We are not convinced that current entry prices provide the most faithful representation of operating capacity and the cost of services. In these areas, our users expect public sector entities to be accountable in relation to decisions associated with the allocation of resources raised in the current and preceding periods. A budget-to-actual comparison is an integral aspect in supporting this accountability. Current entry level prices are useful. However, the information provided is relevant to setting of rates that will apply to future periods and decisions associated with raising revenues for future periods.

Application of deprival value model as envisioned in the ED always results in the use of a basis of measurement grounded on current prices. Deprival value may indicate *replacement cost* should apply. As it is common practice to allow for future needs when constructing new infrastructure projects, the accounting for excess capacity will require evaluation. As well, reporting a cost of service based on an economic measure of replacement cost may not faithfully represent decisions associated with infrastructure design that may not directly contribute to cash flows or service potential. These considerations can include decisions about location, environmental and aesthetic aspects. A significant degree of subjectivity will be associated with any application of a measure based on replacement cost.

Alternatively, if the deprival model indicates a recoverable amount should apply, this will be either *value in use* or *net selling price*. Of these two, net selling price is likely to involve the least subjectivity. On the other hand, if the deprival value model is mandated, many public sector entities will need to assess the current reproduction cost of assets as this information is essential to the measure of value in use.

Our concern with value in use is that it is not a faithful representation for accountability purposes. Estimating the cost to replace the operating capacity of existing infrastructure with a new asset is a subject associated with a future

decision and does not lead to a relevant assessment of accountability for the current reporting period.

**Specific Matter for Comment 4:**

*Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

A: Yes.

However, in our view the statement in paragraph 5.6 is too limiting. Paragraph 5.6 states "...for example, for liabilities under derivative financial contracts that are traded on organized exchanges." It is our concern that if unchanged, this illustration may be used as an excuse for not applying market value when it is valid to do so.

The supporting text needs to clarify circumstances when a reliable measure can result from market values obtained from open, active and orderly markets to measure items that may not themselves be traded. Many derivatives are not themselves exchange-traded as they are contracts entered into outside of a financial market. A derivative is simply an agreement between two or more parties that will result in one or more settlements in future periods based upon the changes in a specified price, rate, index or other variable. As long as the variable is quoted in an open, active and orderly market, the obligation (or benefit) associated with the derivative can be reliably measured. A specific suggestion to address this matter is given in Appendix B.



**Appendix B**  
**Editorial Comments**

The following changes to paragraph 3.4 are suggested:

...Market value is particularly appropriate when information is available from an open, active and orderly market, or where the asset is being held for sale and where it is judged that the difference between entry and exit values is unlikely to be significant.

The following changes to paragraph 5.6 are suggested:

...Such a measurement basis may be appropriate, for example, for liabilities under derivative financial contracts when their value changes in response to the change in a specified rate, index, rating or other variable based on transactions in an open, active and orderly market. ~~traded on organized exchanges.~~



Paris, 15<sup>th</sup> April 2013

**THE CHAIRMAN**

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**Re: Conceptual Framework Exposure Draft 3**

Dear Ms Fox,

Please find enclosed the response of the Public Sector Accounting Standards Council (CNOCP) to the above-mentioned Exposure Draft.

The CNOCP welcomes the IPSAS Board's initiative in working on a Conceptual Framework and acknowledges the high quality of the document. In particular, the Council recognises that the IPSAS Board factored in the comments made in June 2011, especially the affirmation that the Conceptual Framework's provisions apply strictly to financial statements: "*It does not consider application of these bases to other general purpose financial reports (GPFRs) outside the financial statements*" (ED Introduction 1.1.).

As a preliminary comment, the Council notes that the status of the Conceptual Framework is unclear. Therefore it suggests to specify in the introduction that the Conceptual Framework doesn't have authority over the Standards.

The Council is satisfied that the Exposure Draft takes into account some of the comments made in its 9 June 2011 response to the Consultation Paper. It particularly notes the reference to the notion of cost. It also appreciates the importance given to the historical cost.



The Council considers that the measurement methods in the public sector have to follow its activities. In most cases, historical cost will be used. Nevertheless, subject to specific situations, other methods shall apply.

Eventually, the Council suggests introducing in the Exposure Draft a distinction between measurement bases applicable to initial recognition and those applicable on the closing date.

Yours sincerely

Michel Prada



## ANNEX

### RESPONSES TO THE QUESTIONS IN THE EXPOSURE DRAFT

#### Specific Matter for Comment 1

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective, please indicate what this measurement objective should be and give your reasons.*

The measurement bases used in financial statements must ensure the transparency of information, to allow for analysis of initiatives implemented in the public sector. The bases must be consistent with the elements of Phase 1 of the Conceptual Framework in terms of objectives, users and qualitative characteristics. In this respect, the measurement bases used must conform to the principles of comparability, clarity and consistency.

The Council agrees with the objectives assigned in the Exposure Draft to the measurement bases and notes that they are consistent with those designated, in France, in the article 47.2 of the Constitution. The Constitution stipulates that the public entities' accounts must be lawful, faithful and give a true and fair view of its results, net assets and financial situation.

However, the Council believes that elements (e) and (f) of paragraph 1.3<sup>1</sup>, which mention that the choice of a measurement basis makes it possible to judge whether resources have been used efficiently, are outside the scope of the Exposure Draft. It does not find them indispensable.

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<sup>1</sup> § 1.3- Phase 1 of the Conceptual Framework identifies service recipients and resource providers and their representatives as primary users of GPFRs and states that the objectives of financial reporting by public sector entities are "to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes." It identifies a number of specific information needs of service recipients and resource providers and their representatives. The selection of a measurement basis is particularly important to meeting the information needs of users for accountability and decision-making purposes if it enables assessments of:

- (a) Financial capacity—the capacity of the entity to continue to fund its activities and meet its operational objectives in the future;
- (b) Operational capacity—the physical and other resources available to support the provision of services in future periods; and
- (c) The cost of services provided in the period;

The selection of a measurement basis may also affect assessments of:

- (d) The capacity of the entity to adapt to changing circumstances;
- (e) Whether current levels of taxes and other income are sufficient to maintain the volume and quality of services currently provided; and
- (f) Whether resources have been used economically and efficiently.



## Specific Matter for Comment 2

***Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework.***

The Council agrees with the measurement bases proposed but recommends that the Conceptual Framework be expanded in three areas:

- the distinction between measurement bases applicable to initial recognition and those applicable on the closing date, for greater clarity;
- the introduction of a ranking of measurement bases, to ensure consistency among distinct entities' financial statements;
- the introduction of concepts of production cost and asset exchange to supplement the measurement bases for elements.

The Council recommends that as a general rule for initial recognition of an asset and its measurement on the closing date, the historical cost basis be used, because it is especially well suited to many public-sector scenarios. This basis makes it possible to determine the cost of public services provided. It also has the advantage of simplicity and meets the informational needs of users of financial statements.

Other measurement bases, such as market value or depreciated replacement cost, can also be used in specific situations or for particular asset categories.

Applying similar reasoning, measurement can also be achieved by using the net selling price basis, but use of this measurement basis should be restricted to cases in which the entity plans to sell the asset. If sale of the asset is not contemplated, this method is meaningless.

The Council believes that other measurement bases corresponding to specific approaches could also be mentioned in the Exposure Draft. In particular, measurement at no cost or at a nominal amount may apply. In public entities in France, the basis of measurement at no cost is applied to historical and cultural goods ("*heritage assets*") when their historical cost is unknown and because their symbolic value is not measurable.

Concerning the "*value in use*" basis, the Council believes that its application should be circumscribed due to its complex nature. The Council agrees with the limits of this basis as set forth in the Exposure Draft in paragraphs 3.41 *et seq.*



Lastly, the Council finds that on the one hand the presentation of certain measurement bases, such as value in use, is too detailed, and that on the other hand that the calculation methods, such as discounting future cash flows, do not belong in the Conceptual Framework, but should be included in the relevant standards. The Council recommends including only the “*net selling price*” basis in paragraphs 3.32 *et seq.*, without further details of calculations.

### **Specific Matter for Comment 3**

*Do you agree with the approaches proposed in Section 4 for application of:*

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions? If not, please give your reasons; and*
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets? If not, please give your reasons.*

(a) The Council finds that the fair value model is not suitable for use as a general measurement model for public-sector assets at the close of the financial year. To begin with, fair value must not be confused with market value.

The Council points out that the public sector is characterised by the non-commercial nature of its activities, its permanence, and atypical assets, and that these factors would render widespread adoption of the fair value basis inappropriate. In fact, the fair value basis, which is used in the commercial sector as a benchmark standard, should be restricted to the areas in which there are no public-sector aspects. For example, the Council believes that this basis may apply to actively managed assets earmarked for disposal in the near term.

(b) The Council reiterates its opposition to the “*deprival value*” model and finds that this position is widely shared among respondents, who have cited the complex and subjective nature of this basis as well as other problems in implementing it.



#### **Specific Matter for Comment 4**

***Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework.***

The Council considers the liability measurement bases put forward by the IPSAS Board to be relevant, except for the “*assumption price*” basis.

However, it finds that the analysis of liability measurement bases is not as comprehensive as that for asset measurement bases, and that the former deserves greater support.

At the same time, the Council does not see the link that is claimed to exist between asset and liability measurement bases. It believes that the parallel shown in Table 2 of paragraph 5.2 is neither relevant nor justified, and recommends removing the table.





## FRENCH VERSION

Ce document constitue la réponse du Conseil de normalisation des comptes publics (CNOCP) à la consultation de l'IPSAS Board sur la phase 3 du cadre conceptuel des entités publiques.

Le Conseil de normalisation des comptes publics salue l'initiative de l'IPSAS Board sur les travaux relatifs au cadre conceptuel et souligne la qualité du document. Le Conseil est particulièrement sensible au fait que l'IPSAS Board ait pris en considération les remarques qui ont été formulées en juin 2011, et en particulier l'affirmation selon laquelle ces dispositions du cadre conceptuel s'appliquent aux états financiers ; *"It does not consider application of these bases to other general purpose financial reports (GPFRs) outside the financial statements"* (ED Introduction 1.1).

En préambule, le Conseil souhaiterait que l'introduction du cadre conceptuel précise que le cadre conceptuel n'a pas autorité sur les normes.

Le Conseil remarque avec satisfaction que l'exposé-sondage soumis à consultation a pris en considération certaines des remarques formulées dans sa réponse du 9 juin 2011 au « *Consultation Paper* ». Il est en particulier sensible à la reconnaissance de l'évaluation au coût, à l'importance donnée à la méthode du coût historique.

Le Conseil considère que les méthodes d'évaluation dans le secteur public doivent être calées sur ses activités. Le plus souvent, le coût historique sera privilégié. Dans certaines situations, d'autres méthodes devront être retenues.

Le Conseil souhaiterait par ailleurs que l'exposé-sondage distingue clairement l'évaluation lors de la comptabilisation initiale et à la date de clôture.



## ANNEXE

### REPONSES AUX QUESTIONS POSEES DANS L'EXPOSE-SONDAGE

- 1. Etes-vous d'accord avec le fait que le choix d'une méthode d'évaluation est lié à la manière dont cette méthode permet d'atteindre les objectifs du reporting financier ? Si vous considérez qu'il doit exister un objectif d'évaluation, indiquez ce qu'il doit être et justifiez votre position.***

Les méthodes d'évaluation utilisées dans les états financiers doivent assurer la transparence des informations permettant l'analyse des actions menées dans le secteur public. Elles doivent s'inscrire en cohérence avec les éléments de la phase 1 du cadre conceptuel sur les objectifs, les utilisateurs et les caractéristiques qualitatives. A cet égard, les méthodes d'évaluation retenues doivent satisfaire aux principes de comparabilité, lisibilité, et stabilité.

Le Conseil est d'accord avec les dispositions relatives aux méthodes d'évaluation et à leurs objectifs et indique que ceux-ci sont cohérents avec ceux prévus, en France, par l'article 47.2 de la Constitution. Cet article précise que les comptes des entités publiques doivent être réguliers et sincères, et donner une image fidèle du résultat de leur gestion, de leur patrimoine et de leur situation financière.

Toutefois, le Conseil considère que les éléments (e) et (f) du paragraphe 1.3<sup>2</sup>, qui mentionnent que le choix d'une méthode d'évaluation permet d'estimer si des ressources ont été utilisées de manière efficiente, excèdent le champ d'application de l'exposé-sondage, et ne lui semblent pas indispensables.

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<sup>2</sup> § 1.3- Phase 1 of the Conceptual Framework identifies service recipients and resource providers and their representatives as primary users of GPFRs and states that the objectives of financial reporting by public sector entities are "to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes." It identifies a number of specific information needs of service recipients and resource providers and their representatives. The selection of a measurement basis is particularly important to meeting the information needs of users for accountability and decision-making purposes if it enables assessments of:

- (a) Financial capacity—the capacity of the entity to continue to fund its activities and meet its operational objectives in the future;
- (b) Operational capacity—the physical and other resources available to support the provision of services in future periods; and
- (c) The cost of services provided in the period;

The selection of a measurement basis may also affect assessments of:

- (d) The capacity of the entity to adapt to changing circumstances;
- (e) Whether current levels of taxes and other income are sufficient to maintain the volume and quality of services currently provided; and
- (f) Whether resources have been used economically and efficiently.



**2. *Etes-vous d'accord avec les méthodes d'évaluation identifiées dans la section 3 ? Dans la négative, indiquez quelles méthodes d'évaluation complémentaires devraient être prévues ou supprimées du cadre conceptuel.***

Le Conseil est d'accord avec les méthodes d'évaluation proposées, mais souhaite que le cadre conceptuel soit complété sur trois points :

- la distinction entre les méthodes d'évaluation applicables à la comptabilisation initiale et celles applicables à la date de clôture pour une plus grande clarté ;
- l'introduction d'une hiérarchisation des méthodes d'évaluation, pour assurer une homogénéité des états financiers entre des entités distinctes ;
- l'introduction des notions de coût de production et d'échange d'actif pour compléter les méthodes d'évaluation des éléments.

Le Conseil propose que la règle générale pour la comptabilisation initiale d'un actif et son évaluation à la date de clôture soit la méthode du coût historique, car elle est particulièrement adaptée à de nombreuses situations du secteur public. Cette méthode permet de déterminer le coût des prestations de service public, présente de plus l'avantage de la simplicité et répond aux objectifs d'information des utilisateurs des états financiers.

L'utilisation d'autres méthodes d'évaluation comme la valeur de marché ou le coût de remplacement déprécié sont également possibles pour répondre à des situations spécifiques ou à des catégories particulières d'actifs.

Selon un raisonnement similaire, l'évaluation selon la méthode de la valeur nette de cession (« *net selling price* ») peut aussi être retenue, mais le recours à cette méthode d'évaluation doit être limité au cas où l'entité a prévu de céder l'actif ; dans le cas où la cession de l'actif n'est pas envisagée, cette méthode n'a pas de sens.

Le Conseil estime que d'autres méthodes d'évaluation répondant à des approches particulières pourraient également être mentionnées dans l'exposé-sondage. C'est notamment le cas de l'évaluation à l'euro symbolique (« *at no cost* ») ou à un montant forfaitaire. Dans les entités publiques, en France, la méthode d'évaluation à l'euro symbolique est appliquée aux biens historiques et culturels (« *heritage assets* ») lorsque leur coût historique est inconnu, car leur valeur symbolique qui n'est pas mesurable.

S'agissant de la méthode « *value in use* », le Conseil considère que son application doit être encadrée en raison de son caractère complexe. Le Conseil partage les limites de cette méthode qui sont exposées dans l'exposé-sondage aux paragraphes 3.41 et suivants.



Enfin, le Conseil considère, d'une part, que la présentation qui est faite de certaines méthodes d'évaluation, par exemple la valeur d'usage, est trop détaillée, et, d'autre part, que les méthodes de calcul, par exemple l'actualisation des flux de trésorerie futurs n'ont pas leur place dans le cadre conceptuel, mais doivent figurer dans les normes concernées. Le Conseil préconise que les paragraphes 3.32 et suivants présentent uniquement la méthode du « *net selling price* » sans détailler ses modes de calculs.

**3. *Etes-vous d'accord avec les approches proposées en section 4, concernant :***

- (a) *Le modèle d'évaluation en juste valeur, pour estimer le prix de cession d'un bien sur un marché actif, ouvert et organisé à la date d'évaluation dans des conditions normales de marché ? Dans la négative, présentez vos arguments ; et***
- (b) *Le modèle "deprival value" pour sélectionner ou confirmer le choix d'une méthode pour les actifs d'exploitation ? Dans la négative, présentez vos arguments.***

(a) A titre liminaire, le Conseil rappelle que la juste valeur ne se confond pas avec la valeur de marché. Il estime que le modèle de la juste valeur (« *fair value* ») ne peut constituer un modèle général d'évaluation pour les actifs du secteur public à la clôture de l'exercice.

Le Conseil considère que le secteur public étant caractérisé par la nature majoritairement non marchande de ses activités, sa durée de vie illimitée, l'existence d'actifs particuliers, l'utilisation généralisée de la juste valeur est peu adaptée. De fait, la méthode de la juste valeur, qui est utilisée dans le référentiel normatif du secteur marchand, doit être circonscrite aux domaines dans lesquels il n'y a pas de spécificité du secteur public. Le Conseil estime par exemple que cette méthode pourrait trouver à s'appliquer lorsque les actifs sont gérés activement et destinés à être vendus à court terme.

(b) Le Conseil rappelle son opposition au modèle de la « *deprival value* » et constate que cette position est largement partagée par les répondants qui ont mis en avant le caractère complexe et subjectif de cette méthode ainsi que sa difficulté de mise en œuvre.



**4. *Etes-vous d'accord avec les méthodes d'évaluation des passifs de la section 5 ? Dans la négative, indiquez quelles méthodes d'évaluation complémentaires devraient être prévues ou supprimées du cadre conceptuel ?***

Le Conseil estime que les méthodes d'évaluation des passifs proposées par l'IPSAS Board sont pertinentes, hormis la méthode de l'« *assumption price* ».

Néanmoins, il considère que l'analyse consacrée aux méthodes d'évaluation des passifs est moins développée que celle consacrée aux méthodes d'évaluation des actifs et qu'elle mériterait d'être étayée.

En revanche, le Conseil ne comprend pas le lien qui est établi entre les méthodes d'évaluation des actifs et celles qui concernent les passifs. Le Conseil estime que ce parallélisme mis en évidence dans le tableau 2 du paragraphe 5.2 n'est pas pertinent, ni justifié et souhaite que ce tableau soit supprimé.



Mr. Andreas Bergmann  
Chairman  
International Public Sector Accounting  
Standards Board

E-mail: [stepheniefox@ipsasb.org](mailto:stepheniefox@ipsasb.org)

16 April 2013

Ref.: PSC/AKI/TSI/SRO

Dear Mr. Bergmann and Ms. Fox,

**Re: FEE Comments on the IPSASB Exposure Draft on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements**

- (1) FEE (the Federation of European Accountants) is pleased to provide you with its comments on the IPSASB's ("Board") Exposure Draft on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements (the "ED").
- (2) As highlighted in previous comments, FEE strongly supports the Board's intention to finalise the Conceptual Framework with a high priority, as the development of the existing standards and many proposals for future standards depend on its finalisation. This would also help the Board to streamline its standard setting activity in the future, whether setting new standards on public sector specific issues or updating IFRS converged standards.
- (3) We also support the Board's intention to maintain the alignment of IPSASs with IFRSs on matters which are common to both to private and public sectors. However, as rightly pointed out in the Consultation, the development of the *Conceptual Framework* should not be an IFRS convergence project and therefore not an interpretation of the application of the IASB Conceptual Framework to the public sector.
- (4) We agree with most of the elements proposed in the ED, however, we do not believe that the two proposed measurement models, the fair value and deprival model, or any other models should be placed in the Conceptual Framework but would be better addressed on a case by case basis at standard level.



- (5) In addition, we do not think that it would be appropriate for the Conceptual Framework to suggest supplementary disclosures regarding operating capacity and financial capacity where the historical cost measurement basis is used. The Conceptual Framework should remain principle based and therefore avoid providing detailed guidance as how to apply measurement bases. Any supplementary disclosures that are considered necessary would be better addressed at standards level.

Further FEE responses to the detailed questions of the ED are included in the Appendix to this letter.

For further information on this letter, please contact Tibor Siska, project manager, at the FEE Secretariat on +32 2 285 40 74 or via e-mail at [tibor.siska@fee.be](mailto:tibor.siska@fee.be).

Yours sincerely,

A blue ink signature of André Killesse, consisting of a stylized 'A' followed by a horizontal line and a small loop.

André Killesse  
President

A blue ink signature of Olivier Boutellis-Taft, featuring a large, stylized 'O' and 'B' intertwined.

Olivier Boutellis-Taft  
Chief Executive





## Appendix - Responses to Specific Matters for Comment in the Consultation

### Specific Matter for Comment 1

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

- (6) We agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting as described in phase 1 of the Conceptual Framework.
- (7) In order to assess the extent to which the measurement basis meets the objective of financial reporting, in our view the ED rightly identifies the following measurement factors:
- Financial capacity,
  - Operational capacity, and
  - Cost of service provided.
- (8) We also agree that there should be no single measurement basis (or combination of bases) prescribed by the Conceptual Framework but it should only identify the factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances. These factors, in our view, provide a useful basis for preparers to determine the appropriate measurement bases to meet the information needs of the users where there are no requirements in IPSASs as well as for the Board to make consistent decisions in developing standards.

### Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

- (9) Generally, we agree with the proposed four current value measurement bases, such as market value, replacement cost, net selling price and value in use.
- (10) We note that for the historical cost basis, the ED suggests including disclosure of replacement cost or value in use for the assessment of the operation capacity, and disclosure of net selling prices for the assessment of the financial capacity in paragraphs of 2.6 and 2.7 respectively.
- (11) We do not think that it would be appropriate for the Conceptual Framework to suggest supplementary disclosures regarding operating capacity and financial capacity where the historical cost measurement basis is used. We believe that the Conceptual Framework should remain principle based and therefore avoid providing detailed guidance as how to apply measurement bases. In our view, the necessity of any supplementary disclosures should be assessed and prescribed if necessary on a case by case basis at standard level.



## Appendix - Responses to Specific Matters for Comment in the Consultation

### Specific Matters for Comment 3

Do you agree with the approaches proposed in Section 4 for application of:

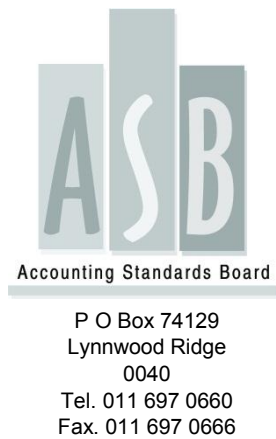
- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

- (12) FEE believes that the inclusion of a measurement objective would enhance the conceptual framework, and that this would permit consideration of measurement models to be undertaken at standards level, where this more detailed consideration is more appropriate.
- (13) Therefore, we believe that the two measurement models (fair value and deprival models) included in the ED, which is to help select the most appropriate measurement basis, should not be placed in the Conceptual Framework but would be better addressed on a case by case basis at standard level.
- (14) The objectives of financial reporting are to provide information that is useful to users for accountability and decision making purposes, and a measurement objective would need to reflect this.
- (15) The measurement basis chosen for any class of asset or liability should be the basis that, in the judgement of the reporting entity, and having regard to the cost of measurement, provides the most useful information for accountability and decision making purposes.
- (16) If, in the judgement of the entity, no single measurement basis can provide useful information for accountability and decision making purposes, the entity should measure that class of assets or liabilities using the measurement basis that provides the most useful information for the purpose that the entity considers will be most important to the users.

### Specific Matter for Comment 4

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

- (17) We agree with the historical and four different current value measurement bases proposed for liabilities, namely market value, cost of release, assumption price and cost of fulfilment.



The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 Canada  
Per e-mail [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)  
18 April 2013

Dear Stephenie,

**COMMENTS ON PHASES 2 AND 3 OF THE IPSASB'S CONCEPTUAL FRAMEWORK PROJECT**

We welcome the opportunity to provide comments on Phases 2 and 3 of the IPSASB's conceptual framework project. Overall, we are supportive of the project as we believe it makes significant strides in strengthening transparency and accountability in public sector financial reporting. Our responses to the specific matters for comment are outlined in Parts A and B of this letter.

This comment letter has been prepared by the Secretariat of the ASB and does not necessarily reflect the views of the ASB Board. In formulating the comments outlined in this letter, the Secretariat has undertaken a limited consultation with its constituents in the South African public sector. This limited consultation included auditors, preparers, users of the financial statements and professional bodies.

Board Members: Mr V Jack (Chairperson), Ms CJ Kujenga, Mr K Kumar, Mr K Makwetu, Mr F Nomvalo,  
Mr G Paul, Ms N Ranchod, Mr B Colyvas, Ms R Rasikhinya, Ms T Coetzer  
Alternates: Ms L Bodewig, Mr J Van Schalkwyk  
Chief Executive Officer: Ms E Swart



As acknowledged in the various documents issued for comment, it may be necessary for the IPSASB to issue a complete Framework for comment once the various phases are complete. Based on the final outcome of the Framework, the views expressed in this letter may be subject to change.

Please feel free to contact me should you require clarification on any of our comments.

Yours sincerely

A handwritten signature in purple ink, appearing to read 'Erna Swart'.

Erna Swart

Chief Executive Officer

## PART A - PHASE 2 ELEMENTS AND RECOGNITION

### Specific matter for comment 1

*Do you agree with the definition of an asset? If not, how would you modify it?*

Yes, we agree with the definition of an asset. In particular, we believe that referring to “the ability” to provide economic benefits or service potential is an improvement from the previous definition as this more appropriately reflects the nature of public sector assets.

### Specific matter for comment 2

*(a) Do you agree with the definition of a liability? If not, how would you modify it?*

Yes, we agree with the definition of a liability.

*(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?*

We would re-name these definitions. The phrase “non-legal binding obligations” is cumbersome. We propose using the terms “legally binding” obligations and “other binding” obligations. We do not believe that the name “non-legal binding obligations” provides a better description of these obligations than just using the phrase “other binding obligations”. The types of obligations envisaged by “other” or “non-legal binding” only becomes clearer once paragraph 3.10 has been read.

Alternatively, we propose rephrasing the term “non-legal binding” to “non-legally binding”.

### Specific matter for comment 3

*Do you agree with the definition of revenue? If not, how would you modify it?*

We do not agree with the definition of revenue, because we do not support deferred inflows and deferred outflows. See our response to specific matter for comment 5.

Consequently, we propose amending the revenue definition as follows:

Revenue is ~~(a) inflows of economic benefits or service potential during the current reporting period, which increase the net assets of the entity, other than (i) ownership contributions; and (ii) increases in deferred inflows; and (b) inflows during the current reporting period that result from decreases in deferred inflows.~~

If the definition of revenue is retained, we suggest the following amendments:

- Part (a) - A reference should be added to inflows of “economic benefits or service potential”.
- Part (b) – It is unclear whether decreases in deferred inflows are “inflows during the current reporting period”? As such we suggest referring only to “decreases in deferred outflows” in part (b).

We have noted in BC 38 that the Board decided not to separately define gains and losses from revenues and expenses. While we agree that gains and losses are not separate elements, we are of the view that there is merit in considering whether these items should be disclosed separately from revenue from operating activities. Gains and losses typically do not arise from recurring transactions, even though these may be part of an entity’s operations (for example, it could be argued that disposing of assets at the end of their useful

lives is part of an entity's operations). If these gains and losses are included with revenues and expenses that are recurring, the predictive value of the information may be compromised. Consequently, we propose that the Board consider separate presentation for gains and losses at a Standards level.

#### **Specific matter for comment 4**

*Do you agree with the definition of expenses? If not, how would you modify it?*

We do not agree with the definition of expenses, because we do not support deferred inflows and deferred outflows. See our response to specific matter for comment 5.

As a result, we propose amending the expense definition as follows:

Expenses are ~~(a) inflows of economic benefits or service potential during the current reporting period, which decrease the net assets of the entity, other than (i) ownership distributions; and (ii) increases in deferred outflows; and (b) inflows during the current reporting period that result from decreases in deferred outflows.~~

If the definition is retained, we suggest making similar changes to those proposed to the revenue definition outlined above.

#### **Specific matter for comment 5**

*(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?*

We do not agree with the decision to define deferred inflows and outflows as separate elements for the following reasons:

- The proposed approach does not reflect economic reality at a given point in time. If an entity has gained control over resources over which no present or future obligation exists, then those resources should be reflected as an inflow in the current period as revenue.
- Deferrals do not represent actual events or occurrences during a period; they merely reflect that a period of time has elapsed. For example, an entity might be given funding to undertake certain activities in both current and future periods. Under the deferred inflows and outflows approach, an entity would recognise those resources received when it has reached the relevant reporting period, irrespective of whether it has actually undertaken any activity. We are therefore of the view that using the passing of time as a measure of whether "flows" are revenue or expenses is an inappropriate reflection of the resources available to an entity at a particular date.
- The notion of deferrals cannot be established without introducing "rules" into a principle based Conceptual Framework. It is also inappropriate that these rules are designed to distinguish between exchange and non-exchange transactions. Conceptual principles should be adequate to apply to a range of transactions, irrespective of their nature.

Based on these comments, we are of the view that the assets and liabilities definitions should be used as clear parameters within which to recognise revenues and expenses. If resources are received in a reporting period and no obligation exist over those resources, then revenue should be recognised in that period, and vice-versa for the recognition of expenses.



We support the view in BC42 that the consequence of receiving resources “earmarked” for future periods is a presentational issue (to be dealt with at a Standards-level) rather than a conceptual issue. We believe that that this issue should be addressed as part of the Board’s current work plan, particularly in relation to amendments to IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

(b) *If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:*

(i) *Decision to restrict those definitions to non-exchange transactions? If not, why not?*

(ii) *Definitions of deferred inflows and deferred outflows? If not, how would you modify them?*

If deferred inflows and outflows are retained as separate elements, we agree that they should be limited to non-exchange transactions. The fact that consideration is exchanged between parties in an exchange transaction, the recognition of revenues and expenses is automatically limited based on parties’ performance. We have noted additional comments on the explanatory paragraphs that would need to be addressed if these elements are retained.

#### **Specific matter for comment 6**

(a) *Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*

We do not agree with the term “net financial position” because we do not agree with the concept of deferred inflows and outflows. We agree with the term “net assets” and its description, including the statement that it is not an element itself. Similar to “net financial position”, we are of the view that “net assets” can be a positive or negative residual amount and this should therefore be acknowledged in the context of “net assets” and not only “net financial position”.

(b) *Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*

We agree with the decision to define ownership contributions and distributions as these represent the “capital contributions” in the traditional sense which, although infrequent in the public sector, do exist. If these elements are not separately defined, it would be difficult to identify and distinguish such arrangements from transfers and/or liabilities.

(c) *If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?*

We agree in principle with the proposed definitions, but would suggest the following amendments:

Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners [1], that establish or increase their interest in the net assets of the entity.

[1] We are of the view that it should be clear that external parties that are making ownership contributions do so in their capacity as owners. This is a particularly relevant issue because many entities are funded by external parties merely

because of the funding mechanisms in place in the public sector. These transfers are not always made in an “ownership” capacity. Consequently, we would suggest adding this additional wording to make it clear that the contribution must be made as an owner rather than just a funder. Alternatively, this should refer only to “owners”.

[2] It needs to be clear from the definition that there is not just an overall increase in the net assets of the entity (which the current wording seems to imply), but that it is the owners’ interest that has been established or increased.

Ownership distributions are outflows of resources from the entity, distributed to ~~external parties~~ owners [1] that return or reduce an interest in the net assets of the entity.

[1] Ownership distributions can only be made to owners as a result of their interest, and the reference to “external parties” should therefore be changed.

(d) *Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?*

We agree that ownership interests should not be defined separately as these indicate how an entity’s interest in another entity arises or established, rather than it being a separate element itself. How ownership interests are demonstrated varies from jurisdiction to jurisdiction and, as a result, we are of the view this should be addressed as a standards-level issue. It would however be useful at a Standards-level how ownership interests can be demonstrated as this is often a key factor in distinguishing between revenue and ownership contributions.

#### **Specific matter for comment 7**

*Do you agree with the discussion on recognition? If not, how would you modify it?*

We do not agree that uncertainty related to the existence of an item should only be considered when it is measured. If this approach is followed, then an entity will recognise all assets and liabilities that meet the relevant definition of an element and can be measured reliably. This may result in a number of items being reflected in the statement of financial position at a low value because of uncertainty around the inflow of economic benefits or service potential. We do not believe that this adequately reflects how a government has exercised accountability over its resources and obligations. This approach merely reflects the quantification of all an entity’s resources and obligations and is a highly complex mathematical exercise. Recognition on this basis might also increase use of a current value measurement bases as entities would need to quantify uncertainty on an ongoing basis. We do not believe that it will enhance decision-making and accountability over those assets and liabilities that an entity manages and is accountable for.

We propose using a threshold (consistent across assets and liabilities) for the recognition of assets and liabilities that best represents the use of an entity’s resources by an entity. The quantification of the rights and obligations currently envisaged by the proposed approach may, in certain circumstances, be useful as additional information disclosed in the notes to the financial statements.

As an alternative, we suggest using probability as well as reliable measurement as criteria for the recognition of elements.

## Other comments

Paragraph reference	Comment
<b>Assets</b>	
2.4	This paragraph explains the nature and uses of public sector assets rather than explaining the definition of an asset. As a result, it may be more appropriate for this paragraph to be included in the Basis for Conclusions.
2.6(b)	Part (b) refers to the ability of the entity to direct other parties on the nature and manner of use of the benefits. While we agree with this, we are of the view that the entity must be able to direct the other party so that it (the entity) benefits from this ability.
2.7(b)	It is unclear how an entity has “The means to ensure that the resources are used to achieve its objectives”, considering legal ownership and access to benefits are outlined in (a) and (b) respectively.
2.7	The wording below (d) seems overly prescriptive, particularly stating that if the ability to restrict or deny access does not exist then it is questionable whether an entity has an asset. BC14 also notes that this is crucial in deciding whether a resource is an asset. There seems to be an inconsistency in the drafting of the exposure draft.
2.7	The “and” between (c) and (d) should be replaced with “or” as it is not necessary to meet all the criteria.
2.8	The 9 <sup>th</sup> line of the paragraph starts “Taking the example of tax...” Explains how the asset definition is applied to taxes. While we support the conclusions reached in the last sentence, it seems inappropriate to discuss the application of the definition to specific transactions and events in the Framework. It may be more appropriate to use this in the Basis for Conclusions to illustrate the Board’s consideration in deliberating the various aspects of the asset definition. We would however retain the last sentence of the paragraph subject to the editorial amendment noted below.
2.8	<p>If the paragraph is retained, we suggest the following improvements to the text of the paragraph:</p> <p>It is essential to determine the point or event at which such rights or powers <u>give rise to an asset of the entity</u> <u>gives the entity the ability to access the service potential or economic benefits</u>. There are a number of potential points at which such events may occur. Taking the example of tax, the following points in the process may be identified: (a)...(d). When the power is exercised and the rights exist to receive service potential or economic benefits or service potential, <u>as asset arises a resource under the control of the entity exists</u>.</p>
BC6.	<p>The last part of this paragraph explains when certain unconditional rights may give rise to assets, for example, if they are acquired in an open, active and orderly market. It is inappropriate to determine accounting requirements for specific transactions and events in the Framework. It is also inappropriate to have such a statement in the Basis for Conclusions. We propose amending the paragraph as follows:</p> <p>“The IPSASB noted that there can be a large number of such rights and concluded that such unconditional <u>promises rights</u> may give rise to assets, if</p>

	<del>the entity has paid for them or if the unconditional right has acquired an identifiable value in an open, active and orderly market.</del> The identification of circumstances where unconditional rights may give rise to an asset is a standards-level issue.”
BC10	To align this paragraph with the paragraph 2.6 of the exposure draft, we suggest amending the paragraph as follows: “Control entails...(a)...,and <u>or</u> (b) the ability...”
BC 11	<p>The third sentence of this paragraph states that “In addition, control can be erroneously applied to a resource in its entirety and not the individual benefits that accrue from the resource”. This statement may give rise to practical application issues. It is often difficult in practice to determine whether an entity enjoys the economic benefits or service potential of an asset as there might be other entities that also enjoy either the economic benefits or the service potential. For example, in a service concession arrangement the grantor might enjoy economic benefits from the asset, while an operator might enjoy the economic benefits of the same asset.</p> <p>The statement, as included in BC 11, seems to imply that an entity needs to assess various aspects of an individual assess to test whether they control that part of the asset, which might not be feasible and may result in inappropriate accounting. This sentence should either be deleted or the principle clarified.</p>
BC14	The opening sentence notes that the existence of access to a resource is “crucial” to the meeting the asset definition. Paragraph 2.7 notes that this is merely an “indicator”. As a result, there seems to be an apparent inconsistency in the wording.
BC16	The second last sentence refers to the fact that the IPSASB considered the “risks and rewards approach”. The first and second sentences however refer to an “economic ownership” approach which focuses on the entity’s exposure to the underlying economic attributes that contribute to the asset’s value to the entity. Based on this description, it is unclear whether these two approaches are in fact the same or different.
BC19	The first sentence of this paragraph refers to “Key Characteristics”. This may need to be updated based on the Board’s decision to modify this document into the Preface to the Conceptual Framework. This is pervasive throughout the document.
<b>Liabilities</b>	
3.2	The word “requirement” is inappropriate in this sentence. We would propose amending the paragraph as follows: “A present obligation is a legal or other [non-legally] binding <u>obligation requirement</u> ...”
3.10(c)	The Basis for Conclusions makes it clear that non-legal binding obligations do not arise from “moral compulsion”. It should be clear in (c) that the entity’s no realistic alternative but to settle the obligation is based on considering economic factors only.
<b>Revenues and expenses</b>	
4.3	The second sentence refers to a “specified” future period. It is unclear who should “specify” this reporting period. Similar to liabilities, we suggest that the wording should explicitly state that this period must be specified by an

	external party. This should also be clarified in paragraphs 5.1 and 5.2.
<b>Recognition</b>	
7.3	The discussion on a “past event” is adequately explained under the asset and liability discussions and it is not necessary to again discuss this aspect in paragraph 7.3. As a result, we propose retaining only the first sentence of paragraph 7.3.

## **PART B – PHASE 3 MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS**

### **General**

We have observed that the drafting and style of the proposed text of Phase 3 is different to Phase 2. The drafting style is similar to that of a Consultation Paper as it seems to “discuss” the measurement bases rather than outline what the concepts and principles are that should be used in selecting a measurement basis when reporting assets and liabilities in the financial statements. While we found the discussion helpful, we believe that location in the Framework itself may be inappropriate.

We therefore suggest that drafting of this Chapter should be refined and made more precise and succinct. We are of the view that concepts and principles should be described with a brief discussion on how they should be applied. It may be appropriate to summarise some of the material into a table or, to include it in the Basis for Conclusions.

### **Specific matter for comment 1**

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

Chapters 2 and 3 of the exposure draft outlines, and includes detailed discussions about, an entity’s assessment of financial capacity, operating capacity and cost of services in relation to the various measurement bases identified. These assessments are however not included in the discussion in Chapter 4 where the “Selection of Measurement Bases and Measurement Models” is discussed. We are of the view that the assessment of whether a measurement basis provides information about financial capacity, operating capacity or cost of services, is an important part of the selection process.

In selecting a measurement basis, the IPSASB or an entity should identify what the measurement objective should be, based on the underlying asset or liability to be measured. As a result, we support the approach to expressing a measurement objective as outlined in the Alternative View (first part of paragraph AV26) as being “*To select those measurement attributes that fairly reflect the financial capacity, operating capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.*” [Would replace “and” with “or”, or alternatively include both “and/or” as it is unlikely that a measurement basis will provide information about all three financial capacity, operating capacity and cost of services.]

We do however agree with the Board’s view in BC4 that it is inappropriate to link the measurement objective to a specific measurement basis or model as this may overly restrict the use of measurement bases or models at a Standards level. We are also of the view that because the qualitative characteristics and constraints should be a key consideration in the selection of a measurement basis or model, the measurement objective cannot be linked to particular bases or models.



## Specific matter for comment 2

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

We agree with the current value measurement bases outlined for assets. In particular, we support the exclusion of fair value from this list as it is not a measurement basis in itself but rather a method of determining an exit based market value under particular circumstances.

## Specific matter for comment 3

*Do you agree with the approaches proposed in Section 4 for application of:*

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and*
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.*

While we support the application of the two models outlined in Section 4 in certain circumstances, we do not believe that these two models should be described in the Framework. We are of the view that describing these two models, and their application to particular circumstances, should be done at a Standards-level. We also do not believe that the models are described in sufficient detail in the Framework for them to be appropriately applied either by the IPSASB or by preparers of the financial statements. As a result, we propose the following:

- The Conceptual Framework could acknowledge that particular models may need to be developed at a Standards-level to assist in selecting a measurement basis.
- Develop IPSASs that outline and describe the application of these measurement models to particular circumstances.

## Specific matter for comment 4

*Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

We agree with the proposed measurement bases for liabilities.

## Detailed comments on exposure draft

The following table outlines our detailed comments on the exposure draft.

Paragraph reference	Comment
1.1	This paragraph largely repeats principles outlined in the Phase 1 chapters. Consequently, it may need to be deleted when the final chapter/omnibus Conceptual Framework is being finalised.
1.3(a)	The description of “financial capacity” refers to “the capacity of the entity to continue to fund its activities and meet its operational objectives in the future”. Many of the discussions/assessments of financial capacity in

	Chapter 3 focus on whether the measurement basis reflects the selling price of an asset. It is unclear why this is the focus of the discussions as it does not seem to relate directly back to the description outlined in paragraph 1.3. We therefore suggest that the description in paragraph 13(a) should be revisited to explain how this “capacity” is demonstrated.
1.5	The second sentence refers to entry values reflecting the “cost of purchase”, while exist values represent the “cost of sale”. This description could be mistaken for the transaction costs related to the purchase or sale of the asset. Consequently, we propose amending this sentence as follows:  “For assets, entry values reflect the purchase price paid to acquire an asset, while exist values reflect the selling price of the asset.”
2.1	This paragraph discusses allocating the cost of the asset to reporting periods. This process is not unique to the “historical cost” measurement basis. As such, it should not be discussed as feature of this measurement basis, and should only be discussed in the context of an assessment of “cost of services” rather than an attribute of a particular measurement basis.
Below 3.2, Table 1	This table should be expanded to outline what “objective” (financial capacity, operating capacity or cost of service) the measurement basis best fulfils.
3.3	The definition of market value currently refers to a liability being “settled”. We are of the view that this should be replaced with “transferred” as this best describes a market value for a liability. In addition, paragraph 5.6 discusses the “transfer” of a liability rather than the settlement of a liability.  The reference to “settled” could be confused with the “Cost of fulfilment” in chapter 5.
3.4	The opening sentence of this paragraph states that “At acquisition, market value and historical cost will be the same, if transaction costs are ignored.”  In reality, market value and historical cost may not be the same as the one is an exit price, while the other is an entry value. We would therefore suggest that this sentence be reworded to state that market prices and historical cost <u>may</u> be the same.
3.11	The second sentence of this paragraph notes that “If market-based information is used for pricing decisions, the users of services could be charged with higher costs than those actually incurred”. This sentence implies a close linkage between the costs incurred and the tariffs charged by entities. While this may be true for the private sector, it is unlikely in the public sector where users either pay nothing, or only a nominal fee, for goods and services received.
3.13	From the opening sentence, it is unclear whether market value provides an indication of the operational capacity of an entity.  It is also unclear why the statement in the last sentence is necessary.
Section on replacement cost	Many of the paragraphs in this section refer only to “service potential” (e.g. 3.18(b) and 3.20). As assets embody both economic benefits or service potential embody both the paragraphs should refer to both economic benefits and service potential.
3.41	The definition of value-in-use refers to “remaining service potential or economic benefits.....” Value-in-use often makes use of a discounted cash flow analysis. As such, we are of the view that definition should also refer to the expected cash flows.

BC27.	This paragraph states that the fair value model should only be applied when the market is inactive. This has not been articulated in the main body of the exposure draft.
4.11	If the section on deprival value is retained, then paragraph 4.11 should be reworded as the current descriptions are not useful in the context of the diagram.



NZ ACCOUNTING  
STANDARDS  
BOARD

22 April 2013

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

Submitted to: [www.ifac.org](http://www.ifac.org)

Dear Stephenie

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

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the Conceptual Framework Exposure Draft 3, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements* (CF ED 3). The ED has been issued for comment in New Zealand and as a result you may also have received comments directly from New Zealand constituents.

**General comments**

The NZASB compliments the International Public Sector Accounting Standards Board (IPSASB) on its commitment to, and progress in, developing a conceptual framework for general purpose financial reporting by public sector entities. In particular, the NZASB compliments the IPSASB for tackling the difficult topic of measurement for which other frameworks do not provide much guidance.

We note that the International Accounting Standards Board (IASB) has recently recommenced its work on a conceptual framework for for-profit entities. We encourage the IPSASB and the IASB to work closely together in developing their conceptual frameworks as the two Boards are likely to be considering similar issues. We consider that the development of the conceptual frameworks is too important for the two Boards to be working independently of each other. Ideally, the IPSASB and IASB Frameworks should only contain different concepts that result from sectoral differences.

The NZASB considers that identifying and describing different measurement bases and classifying them as either an entry-price or an exit-price, and either entity or non-entity specific, will be helpful for selecting a measurement base in a standard (and applying the measurement base in practice). This is because these descriptions and classifications clarify what it is that a particular measurement base is intended to measure. Also, the discussion of various measurement bases in relation to the objectives and qualitative characteristics of financial reporting should help when selecting a particular measurement base in a standards-level project.

Regarding further classifications of measurement bases, we do not consider it necessary to classify measurement bases as either 'observable' or 'non-observable' in a market. Whether a measurement base is observable or not is to do with the type of evidence available to support that measurement rather than what the measurement base is intended to represent. Also, we do not consider it necessary to distinguish between the two 'types' of market values set out in the table in paragraph 3.2 of the ED. Whether an entity is estimating a market value in an inactive or active market, the measurement objective is still the same, that is, to determine a market-participant (non-entity-specific) view of the current exit price.

Further, we consider that it would be useful if the IPSASB explained the need for mixed measurement and the conditions under which specific measurement bases might be appropriate. We discuss this further below in our discussion of the need for a measurement objective. We consider that the IPSASB should explain the differences between the available measurement bases and why these differences result in mixed measurement being more appropriate than a single measurement basis for all assets and liabilities or other measurement bases.

### **Primary concerns**

The NZASB's primary concerns with the proposals in the ED relate to:

1. the absence of an overall measurement objective;
2. the use of 'fair value' as a measurement method rather than a measurement base; and
3. specific aspects of some proposed measurement bases.

### **Absence of a measurement objective**

#### *Need for a measurement objective*

We note the IPSASB's decision not to include a measurement objective in guiding the selection of a measurement basis. We consider an overall measurement objective essential to provide a clear link between measurement bases and the objectives and qualitative characteristics of financial reporting.

Setting a measurement objective would not unduly restrict the IPSASB; rather, it should guide the IPSASB in consistent selection of appropriate measurement bases in standards-level projects. This is particularly important as many doubt that there is a single measurement basis that is likely to ensure that reported information fulfils all the qualitative characteristics. A measurement objective will also guide preparers in establishing appropriate accounting policies for transactions not covered by International Public Sector Accounting Standards (IPSAS).

We acknowledge that the development of a measurement objective would not necessarily lead to unequivocal decisions about the appropriateness of measurement bases. However, without a measurement objective, there is a risk that the selection of measurement bases may be arbitrary and, hence, will undermine the quality and usefulness of information reported.

In this regard, we strongly support the alternative view of Mr Ken Warren. We agree with the proposed measurement objective and rationale set out in the Mr Warren's alternative view.

#### *Development of a measurement basis*

A measurement objective must be designed to meet the objectives of financial reporting. In Section 1 of the ED, the IPSASB asserts that a measurement basis will contribute to meeting the information needs of users if it provides information that enables assessments of:

1. Financial capacity;
2. Operational capacity; and
3. The cost of services provided in the period.

Measurement of financial capacity provides information to assess the extent of the resources an entity has available to meet financial claims or which can be transformed into operating capacity. In our view, the fair value measurement basis is likely to best operationalise the measurement objective of fairly reflecting financial capacity.

In assessing the entity's operational capacity and cost of services, users are interested in such matters as the nature and extent of the physical and other resources available to support the provision of services in future periods, the capacity of the entity to adapt to changing circumstances, the actual cost of services provided in the period compared to expectations, whether current levels of taxes and other income are sufficient to maintain the volume and quality of services currently provided, and whether resources have been used economically and efficiently. In our view, in most cases the deprival value basis is likely to best operationalise the measurement objective of fairly reflecting operating capacity.

#### **Comments on specific measurement bases and models**

##### *Fair value: Measurement base or measurement model*

We consider 'fair value' to be a measurement base rather than a measurement model. The 'fair value model' discussed in paragraphs 4.5-4.8 of the ED represents a measurement model as distinct from a measurement base.

The definition of market value in paragraph 3.3 of the ED is the 'old' definition of 'fair value', that is, the definition currently used in IPSAS and in International Financial Reporting Standards (IFRS) before the adoption of IFRS 13 *Fair Value Measurement*. This definition has always raised doubts as to whether it is an entry or exit price (for example, it refers to exchange of an asset instead of the sale of an asset) whereas the new definition in IFRS 13 is clearly an exit price. Given that the ED effectively treats market value as an exit price, we consider that the IPSASB should adopt the IFRS 13 definition of fair value.

Defining 'market value' as what currently is considered to be 'fair value', and defining 'fair value' as a method for determining 'market value', is confusing and circular. We recommend using

‘fair value’ rather than ‘market value’ as the descriptor of the measurement basis (while acknowledging that, as with all measurement bases in section 3 of the ED, it is rarely possible to measure assets and liabilities with absolute accuracy). We consider that it is important to avoid any confusion in this area, particularly for public sector entities that must consolidate government business enterprises applying IFRS.

#### *Market value of liabilities*

We consider the discussion of market value in the context of liabilities to be confusing and inconsistent with other parts of the ED.

Paragraph 5.6 of the ED describes the market value of a liability as a transfer price. Describing the market value of a liability as a transfer price is consistent with the new definition of fair value in IFRS 13, which refers to the price at which a liability could be transferred. However, this is inconsistent with the definition of market value in paragraph 3.3 of the ED, which refers to ‘settling’ a liability, not transferring it.

The ED goes on to discuss two different types of settlement of a liability – immediate settlement (in the discussion of cost of release in paragraphs 5.7-5.11 of the ED), and settlement over time in accordance with the obligations (in the discussion of cost of fulfilment in paragraphs 5.18-5.25 of the ED). These are different measurement bases to market value. From the discussion of these measurement bases it seems clear that the IPSASB considers the ‘market value’ of a liability to be its current transfer price (that is, a market participant view of its current exit price).

We recommend that the definition in paragraph 3.3 of the ED be amended to refer to transfer of a liability rather than settlement of a liability.

#### *Deprival value*

The ED states that deprival value reflects the loss that the entity would sustain if it were deprived of the asset, or the amount that the entity would rationally pay to acquire the asset, if it did not already control it. This is sufficient at a conceptual level. However, the ED then goes on to state that the deprival value model is a decision-making model for selecting or confirming a measurement basis. We consider the discussion of how to go about selecting an appropriate calculation method for determining deprival value to be standards-level discussion. Similarly, we consider that much of the discussion of the fair value model (that is, how to determine market value) to be standards-level discussion.

While in the ‘normal case’ the diagram at paragraph 4.9 of the ED is appropriate, we note that specific cases can be defined where the net selling price (net realisable value) is greater than replacement cost and value in use. If net selling price exceeds optimised depreciated replacement cost it would, in normal circumstances, indicate that there is a redevelopment or redeployment opportunity associated with the asset. In that case there is an argument in the for-profit sector that its deprival value should be measured as net selling price (whereas application of the rule stated in Diagram 1, paragraph 4.1 of the ED would lead to measurement at replacement cost)<sup>1</sup>. Some not-for-profit public sector entities which have assets with a net selling price (net realisable value) which is greater than replacement cost and value in use, may

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<sup>1</sup> This argument is developed fully in Van Zijl, T. and Whittington, G. (2006) “Deprival value and fair value: a reinterpretation and a reconciliations.” *Accounting and Business Research*, 36(2): 121-130.



not be able to avail themselves of redeployment opportunities. This may occur when assets are held for cultural or environmental reasons, and the political environment actively discourages the entity from redeploying or redeveloping capacity. We encourage the IPSASB to further explore when these issues might arise, where conceptually these examples differ from the for-profit application, and to develop a framework which responds to such situations.

We note that the fair value of operational assets held by public sector entities would normally be estimated by replacement cost. Therefore, there might be little practical difference between use of fair value and deprival value. However, application of deprival value, reinterpreted as in van Zijl and Whittington (2006), might usefully highlight the existence of redevelopment or redeployment opportunities associated with an operational asset and, therefore, cause users of public sector financial statements to consider whether or not there is a public sector reason for retaining the asset.

We recommend changing the definition of recoverable amount (in paragraph 4.11 of the ED) to that adopted in IPSAS 21 *Impairment of Non-Cash-Generating Assets* and IPSAS 26 *Impairment of Cash-Generating Assets*, that is the higher of fair value less costs to sell and value in use, rather than the higher of net selling price and value in use.

We also recommend renaming 'replacement cost' as 'optimised depreciated replacement cost'. This would explicitly recognise that the cost refers to replacement of the service potential rather than the actual asset. Paragraphs 3.20 and 3.21 of the ED explicitly recognise this need to value the optimised depreciated replacement cost.

#### **Responses to specific matters for comment**

Our responses to specific matters for comment, and other comments, are included in the appendix to this letter.

If you have any queries or require clarification of any matters in this submission, please contact Clive Brodie ([clive.brodie@xrb.govt.nz](mailto:clive.brodie@xrb.govt.nz)) or me.

Yours sincerely



Michele Embling

**Chairman – New Zealand Accounting Standards Board**

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## APPENDIX

### Response to specific matters for comment

#### Specific Matter for Comment 1:

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

The NZASB agrees that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting. We consider that it is important to assess whether information provided by the measurement basis that has been chosen meets the overall objectives of financial reporting and the qualitative characteristics in the context of concepts of capital maintenance.

However, the NZASB considers it essential that there is a measurement objective to link the overall objectives of financial reporting and the qualitative characteristics to decisions on which measurement basis to use in particular circumstances. In this regard, we strongly support the measurement objective, and the underlying reasons, set out in Mr Warren's alternative view.

#### Specific Matter for Comment 2:

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

We recommend the following current value measurement bases:

1. Fair value: As discussed in our covering letter, we consider fair value to be a measurement base rather than a measurement model.
2. Optimised depreciated replacement cost: As discussed in our covering letter, we recommend renaming 'replacement cost' as 'optimised depreciated replacement cost'.
3. Fair value less costs to sell: As discussed in our covering letter, we suggest that net selling price be replaced with fair value less costs to sell.
4. Value in use: We agree with value in use as a measurement basis.

#### Specific Matter for Comment 3:

Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

(a) The fair value model

As discussed in our covering letter, we do not agree with the approach in the ED of defining fair value as a measurement model rather than as a measurement basis. Given that the ED effectively treats market value as an exit price, we consider that the IPSASB should adopt the new IFRS 13 definition of fair value.

(b) Deprival value model

As stated in our covering letter, we do not agree with the inclusion in the conceptual framework of a discussion on the application of the deprival value model. Discussion of how to go about selecting an appropriate calculation method for determining deprival value we consider to be a standards-level discussion.

**Specific Matter for Comment 4:**

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

As discussed in our covering letter, we recommend that the definition in paragraph 3.3 be amended to refer to the transfer of a liability rather than settlement of a liability. Otherwise, we agree with the proposed measurement bases for liabilities in Section 5 of the ED.

**Other miscellaneous comments**

Paragraph 1.5 of the ED gives historical cost as an example of an entry value. We recommend that fair value be provided as an example of an exit value.

Paragraph 3.13 of the ED suggests that, if market values are low, historical cost will likely provide the most relevant information about operating capacity. We recommend that this statement be clarified. If market value is low an asset may be impaired, in which case the impaired historical cost would provide relevant information. Also, the paragraph seems to imply that, in the public sector, low market values should be ignored. However, if the market value is low but the asset is not impaired, this is likely due to the value in use of the asset being higher, rather than the low market value being irrelevant. Further, the paragraph seems to assume that, regardless of the low market value, there is always still a need for the services provided for which the assets are used. This does not address the case where the market value plummets due to a decline in the desire or need for a service.

Paragraph 3.15 of the ED states that market value will meet the qualitative characteristics. If the selection of a measurement basis is based on the extent to which a particular measurement basis meets the objectives of financial reporting this paragraph then implies that market value is best in all circumstances and so contradicts other paragraphs in the ED, such as paragraph 3.13, which states that, where market values are low, historical cost provides more relevant information.

## Conceptual Framework Exposure Draft 3

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

Comments from ACCA  
22 April 2013

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 154,000 members and 432,000 students throughout their careers, providing services through a network of 83 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities.

[www.accaglobal.com](http://www.accaglobal.com)

Further information about ACCA's comments on this matter can be obtained from:

**Gillian Fawcett**  
Head of Public Sector  
Email: [gillian.fawcett@accaglobal.com](mailto:gillian.fawcett@accaglobal.com)

ACCA welcomes the opportunity to comment on this Exposure Draft 'Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements'. The ACCA Global Forum for the Public Sector has considered the matters raised and their views are represented below.

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## SUMMARY

ACCA is supportive of the development of a conceptual framework for public sector accounting standards as set out in previous correspondence. We also welcome the IPSASB making the completion of the framework a priority in 2013/14. Overall, we agree with the proposals set out in this Exposure Draft (ED).

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## SPECIFIC COMMENTS

1. Do you agree that the selection of measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give reasons.

We agree that the ED should not prescribe a single or combined measurement bases. It should only identify the factors which should be relevant for selecting a form of measurement for assets and liabilities to ensure that the objectives of financial reporting are met.

2. Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases are not included in the framework.

We agree with the current value measurement bases for assets as identified in Section 3.

3. Do you agree with the approaches proposed in Section 4 for application of (a) the fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and

orderly market at the measurement date under current market conditions. If not, please give your reasons; and (b) the deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

We agree with the approaches set out in Section 4 for the fair value measurement model. The deprival model is also a useful model for finance professionals to follow when selecting the most appropriate measurement basis although this should not be made a requirement.

4. Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the framework.

Overall, we agree with the five measurement bases proposed in the ED for liabilities, as well as the corresponding terminology for assets.



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International Public Sector Accounting  
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CANADA

Our ref KK/288  
Contact Katja van der Kuij

22 April 2013

Dear Ms Fox

**Conceptual Framework Exposure Draft 3 for General Purpose Financial Reporting by  
Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements**

***Summary comments***

We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board's ('IPSASB' or the 'Board') Exposure Draft ('ED') entitled *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*, dated November 2012. We have consulted with, and this letter represents the views of, the KPMG network.

While we generally are supportive of the draft, we have identified specific matters that we believe merit further consideration. These follow below:

***Overall Comments***

The term "operational assets" is used throughout the exposure draft. A definition of operational assets should be included either in this document or in the 'Elements and Recognition in Financial Statements' section of the conceptual framework. Such definition could be "An operational asset is a non-financial asset which is held to provide services."

We disagree with the statement in paragraph 3.11, if the implication as drafted is that market value is representationally faithful with respect to reporting the cost of service. Market values report the cost that would have been incurred had the asset been purchased at the time the service was provided. It is therefore not representationally faithful to the transaction that actually occurred which was the cost at the time the asset was acquired, in particular for operational assets.





**KPMG IFRG Limited**  
*Conceptual Framework ED3*  
22 April 2013

Much of the discussion in paragraph 5.9 appears to be a recognition issue rather than a measurement issue and should be excluded from this standard.

Providing examples of the application of the various measurement models may be helpful to users. For example, application of the deprival model may be enhanced if an example is provided of specific circumstances where it would be used. Many services provided by a government entity would be difficult to value. For example, a government entity provides a service in its office building. How would the service provided be valued to determine the value of the office building?

***Specific Matter for Comment 1***

*You ask whether “we agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting and if so what should this measurement objective be”.*

We generally agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting. No one measurement objective should be developed since the characteristics of the particular asset or liability should be considered when selecting the appropriate measurement basis. The overall financial statement objectives should be considered in the selection of a measurement basis as is outlined in the discussion in paragraph 1.3 and in Sections 3 and 4. This will ensure that the general purpose financial statements provide information that meets the objectives of financial reporting.

Table 1 on page 13 indicates that net selling price is an observable value. This value won't always be an observable value and when it is observable there may be a greater or lesser degree of transparency around the value depending on the circumstances. This should be indicated in the Table.

Paragraph 3.5 should be expanded to include a definition of an active market similar to that provided in Appendix A of IFRS 13.

***Specific Matter for Comment 2***

*You ask whether “we agree with the current value measurement bases for assets that have been identified in Section 3. If not, indicate which additional measurement bases should be included and which should not be included.”*

We agree with the current value measurement bases for assets that have been identified in Section 3. A clear discussion on the circumstances when one would use the measurement basis should be included for each basis similar to the discussion in paragraph 3.44 for “value in use”. Paragraph 3.22 should state that replacement cost is appropriate when it is greater than the value in use.



**KPMG IFRG Limited**  
Conceptual Framework ED3  
22 April 2013

Paragraph 3.8 should clearly state that market value is not an appropriate measurement basis for operational assets that do not have an open and active market.

***Specific Matter for Comment 3***

You ask whether “we agree with the approaches proposed in Section 4 for application of:

- (a) *The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions.; and*
- (b) *The deprival value model to select or confirm the use of a current measurement basis for operational assets.”*

- (a) Paragraph 4.6(a) assumes that “the valuation of a non-financial asset is based on the premise that the asset will be used in its highest and best use.” Fair value determined in this manner would be a higher value than what is actually being derived by the entity. It does not reflect the actual use to which the asset is put. This would have a negative effect on the representational faithfulness of the transaction. The model needs to incorporate actual use of the underlying asset in order to reflect the entity’s actual circumstances.

Paragraph 4.6(b) assumes that “the transaction takes place in the principal (most advantageous) market”. While the entity holding the asset might desire that the transaction takes place in the most advantageous market, that is not always the case. Thus, the model needs to incorporate market’s real potential into its calculation in order to derive more value from the resulting calculation.

- (b) The Deprival Value Model has limited use in specific circumstances. Examples of when the deprival value model should be used should be included in the standard if it is to be used at all. Valuers use this model for long-term assets of a specialised nature or self-developed fixed assets where there is limited market replacement cost information or other market corroborative evidence. The deprival value model can be abused to justify a wide range of fair values so clear guidance needs to be given for its use. For example, a limitation on future cash flows used in estimating the value or explicit guidance to consider functional and technological obsolescence and age of the asset being valued. The deprival value model should be considered a last resort method of establishing value.

***Specific Matter for Comment 4***

You ask whether “we agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework.”



**KPMG IFRG Limited**  
*Conceptual Framework ED3*  
22 April 2013

We agree with the measurement bases for liabilities that have been identified in Section 5. However, we note that much of the discussion in paragraph 5.9 appears to be a recognition issue rather than a measurement issue and should be excluded from this ED.

KPMG appreciates the opportunity to respond to this ED. Please contact Archie Johnston at +1 604 527-3757, Peter Greenwood at +1 604 691 3187 or Katja van der Kuij at +44 20 7694 8871 if you wish to discuss any of the issues in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited





29 April 2013

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

Dear Ms Fox

**IPSASB Conceptual Framework Exposure Draft 3: Measurement of  
Assets and Liabilities in Financial Statements**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the above Exposure Draft.

ACAG strongly supports the alternative view of Mr Ken Warren. In essence, the Exposure Draft lists a number of possible measurement bases for assets and liabilities and discusses their advantages and disadvantages. However, it does not establish any overall measurement objective. One of the purposes of a conceptual framework should be to explain what it is that financial statements are trying to measure. ACAG supports Mr Warren's proposition to include a measurement objective and that financial assets and liabilities should be measured using the fair value model, and that operational assets should be measured using the deprival value model.

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

Yours Sincerely

A handwritten signature in dark ink, appearing to read 'S O'Neill', is written over a horizontal line.

Simon O'Neill  
Chairman  
ACAG Financial Reporting and Auditing Committee

## **IPSAS ED 3 Conceptual Framework ...: Measurement of Assets and Liabilities in Financial Statements**

Comments by Daniëlle Vermaelen and Johan Christiaens prepared for IBR-IRE

18<sup>th</sup> March 2013

### Introduction

The following comments and suggestions are meant to improve if possible IPSAS ED 3. It is not the intention to provide a complete set of remarks based on a thorough examination of this IPSAS ED 2. Probably there are still other suggestions or comments possible.

### General remarks

- The conceptual framework should be established based on user-need accounting research. The current ED provides an overview of different measurement principles without setting up a best practice in certain applications. “Different cost for different purposes” is a saying that is applicable in this ED.
- The literature about accounting and measurement is very huge and debates e.g. historical cost – current accounting cost are continued. Therefore the IPSASB could organize preceding scientific research regarding the different user needs when discussing governmental financial reporting.
- The ED lacks a number of examples, which can improve their readability and understandability.



EKONOMISTYRNINGSVERKET

Date

April 29 2013

Reference number

3.4-448/2013

Our reference

Anne-Marie Ögren

Your date

Your reference number

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

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the proposals in Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities and Financial Statements (Exposure Draft 3).

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government.

### **Specific Matter for Comment 1**

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

#### **Comments:**

We agree to that basis for selection. There are however many objectives involved in financial reporting and all cannot on the same time be achieved on the face of the statement and be based on one and only one measurement basis. That means that there can be a need for complementary information in note disclosures that shows another measurement basis. As emphasis on objectives and ways of budget management differs over the world and between types of entities, it may be necessary to differ in selection between entities.

In Sweden we use historical cost for the largest part of assets and liabilities in the entities and in the Central Government annual report. We consider that historical cost in combination with depreciations provides information on the actual cost of services in the reporting period. We also want to mention that the use of replacement cost is not relevant for Central Government entities because they are not responsible for securing capital for future investments. It is the government that is responsible to decide whether assets should be replaced and, if so, to allocate capital. Information of replacement cost is however relevant and could be submitted as disclosure notes.

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We also believe that it is not a primary objective of financial reporting in the public sector to create a direct comparability between nations. This is rather one of the objectives of the national accounts. The large differences in organizational structure, tasks, budget policies and constitutions between countries are therefore as far as possible handled in the national accounts.

### **Specific Matter for Comment 2**

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework.*

#### **Comments:**

We agree with the current value measurement bases.

### **Specific Matter for Comment 3**

*Do you agree with the approaches proposed in Section 4 for application of the fair value measurement model and the deprival value model?*

#### **Comments:**

We agree on both points.

### **Specific Matter for Comment 4**

*Do you agree with the proposed measurement bases for liabilities in Section 5?*

#### **Comments:**

We agree.

### **Concluding remarks**

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.

Senior Advisors Anne-Marie Ögren, Curt Johansson, Ingemar Härneskog and Maria Olsson have prepared the comments given in this report.

Yours sincerely,

Pia Heyman

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IPSASB Conceptual Framework Exposure Draft Phase 3 —  
*Measurement of Assets and Liabilities in Financial Statements*  
**response to exposure draft**

30 April 2013

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

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

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

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

Our ref: Responses/ 130430 SC0196

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

April 2013

Dear Stephenie Fox

**IPSASB Conceptual Framework Exposure Draft Phase 3 – *Measurement of Assets and Liabilities in Financial Statements***

CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comment**

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs. A key element of this is the development of a public sector Conceptual Framework, which will aid both IFRS converged development and freestanding development of standards on public sector matters.

**Selection of measurement bases during standard setting and in financial reporting**

CIPFA agrees with the content of the material on Deprival Value and Fair Value, and indeed we would be sympathetic to using these approaches when considering measurement issues in future standards development by the Board.

However, in our view this material is too specific for an overarching framework document, and this does not help the flow of explanation within the document.

In our view it would be more helpful if a more high level approach were taken, setting out a measurement objective to drive the selection of a measurement basis or to determine a process for selection of a basis. This could be used both by the Board in its development of standards on specific topic, and by preparers when making choices between allowable measurement bases.

A suitable objective might be along the lines of

*The measurement basis chosen for any class of asset or liability should be that which, having regard to the cost of measurement, provides the most useful information for accountability and decision making purposes.*

The nature of an asset or the purpose for which it is being used may affect both the accountability issues and the types of decision under consideration. Where an asset is primarily intended to generate profits, then information relating to revenue generation potential may be particularly relevant. In contrast, where an asset is primarily intended to provide a service, it may be useful to incorporate information which reflects the benefit

provided by the asset in delivering the service. In similar vein, the operating context in which liabilities are incurred may affect the choice of measurement method.

**Response to specific questions**

Comments on the specific matters for comment are provided in the attached Annex.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours faithfully

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## ANNEX

### Specific Matters for Comment

#### Specific Matter for Comment 1

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

CIPFA agrees that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting.

We also agree that there should be no single measurement basis (or combination of bases) prescribed by the Conceptual Framework but it should only identify the factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances.

As discussed in the covering letter, CIPFA considers that it would be helpful to provide an overarching objective to inform the selection of measurement bases. The following example objective, together with contextual explanation, could inform selection both by IPSASB during the development of standards, and also inform decisions by preparers when selecting between bases permitted under relevant standards:

*The measurement basis chosen for any class of asset or liability should be that which, having regard to the cost of measurement, provides the most useful information for accountability and decision making purposes.*

The nature of an asset or the purpose for which it is being used may affect both the accountability issues and the types of decision under consideration. Where an asset is primarily intended to generate profits, then information relating to revenue generation potential may be particularly relevant. In contrast, where an asset is primarily intended to provide a service, it may be useful to incorporate information which reflects the benefit provided by the asset in delivering the service. In similar vein, the operating context in which liabilities are incurred may affect the choice of measurement method.

#### Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

CIPFA agrees with the proposed current value measurement bases for assets.

### **Specific Matter for Comment 3**

Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

As noted at SMC 1 CIPFA believes that the inclusion of a measurement objective in the conceptual framework would be helpful both for clarity purposes, and in avoiding over specificity.

In the light of this we believe that the two measurement models (fair value and deprival models) included in the ED should not be placed in the Conceptual Framework but would be better addressed on a case by case basis at standards level.

Consideration of measurement models such as deprival or fair value could be undertaken during the standards development process, having regard to the specific matters being reported upon. Standards would then either specify one or more measurement bases to be used in specific circumstances, or the process to be undertaken by preparers to determine the appropriate measurement basis.

### **Specific Matter for Comment 4**

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

CIPFA agrees with the proposed measurement bases for liabilities in Section 5.



Paris, 30 April 2013

**Comité consultatif sur la normalisation des comptes publics**

**Advisory committee on public sector accounts standards**

*The Chairman*

**Response to the Exposure Draft : “Measurement of assets and liabilities”.**

Dear Mrs. Fox,

Please, find enclosed the response of the « Cour des comptes » to the above mentioned Exposure Draft “Measurement of assets and liabilities”.

The Internal Advisory Committee of the French supreme and local courts of public auditors is in charge of finalization of their positions and advices on accounting standards dealing with the three components of the public sector (central government, local authorities, and social security).

The Cour des comptes thanks the IPSAS Board to give the opportunity to express some of its views on this Exposure Draft, which will, for a large part, rely on its practical and direct experience of audit, mainly in French public entities, but also through several external audits of International Organizations, most of them fully IPSAS compliant or on the way to IPSAS compliance.

The Cour des comptes is pleased with the assessment in the ED that the IPSAS conceptual framework is not an IFRS convergence project, neither that it has the



purpose to interpret an application of the IASB Framework to the public sector. This assessment expresses that public sector specificities must be considered, especially at the conceptual framework level.

It notes, as a preliminary comment, that the IPSAS Board has, in this ED, achieved an interesting conceptual step through a useful review and an effort of classification of the main exiting bases of measurement. It is also positive in its concise presentation and the pedagogic supply of figures and examples.

However, the Cour des comptes has additional or different views on some of the proposals open to discussion in the ED, that are mentioned in the answers to the specific matters for comment.

They mainly focus on the following points:

A) The mention of the historic costs is welcome, according to its importance in the public sector. The Cour des comptes thinks that it should be stated that this may include “production costs”, which is a measurement base frequently used among public entities, that is sometimes, but not always, assimilated to historic costs.

B) It may be reductive to only dedicate historic costs to entry value. It should be added that historic costs can also be an exit base, especially in transfers of assets between public entities, due to its strength in terms of fairness, audit evidence and compliance with the prudential principle that still governs many public entities in their measurement options.

Our specific comments are disclosed below.

Yours sincerely,



Raoul BRIET

## **Annex: specific matters for comments**

### **Specific Matter for Comment 1** *(Agreement on measurement bases and objectives of financial reporting?)*

#### **Comments:**

Global Agreement, but the Cour des comptes notes that in his alternative view, M. Ken Warren gives also an interesting definition of the measurement objective, mentioning its aim to be useful to decision makers and account holders, that could be helpful at the conceptual framework level.

It is throughout suggested that measurement of assets and liabilities should not only stick to the objectives of financial reporting as a general assessment, but also take into account specificities of the public sector such as the prudential principle, which in many jurisdictions governs the use of tax-payers money, and the wish for stability in measurement bases and figures, as well as ability to bring undisputed audit evidence, especially for external auditors.

### **Specific Matter for Comment 2**

*(Agreement on identified measurement bases for assets?)*

#### **Comments:**

Although not disagreeing with the identified measurement bases, we wish to add that the historic costs bases of measurement should not be only dedicated to entry value on specific public items.

It is often commonly agreed between public entities, when involved in joint projects or partnerships dealing with sharing or transfers of competencies, that assets should be evaluated on a conventional base (mainly historic or at production cost) as exit value.

This can be the case, for example, when an asset is transferred from one entity to another: its value is “exit value” for one and “entry value for the other. This is the case of transfers of

competency on high schools from the central government to local authorities, for the valuation of equipment and furniture. It may also happen in some jurisdictions that the law has given to a specific authority the monopoly to settle the valuation of public assets as an exclusive prerogative, which implies that the entity which controls an asset may not have the capacity to measure its exit value.

The conceptual framework should also mention that historic costs include also production costs methods for assets. Reference to production costs is an important source of measurement among the public sector, especially for specific assets when the entity owns rights of monitoring costs and margin on its providers, or in the case of transfers of assets on a non-profit basis between public entities.

The conceptual framework should emphasize that, among its advantages, the historic costs bases of measurement is compliant with the prudential principle often imperative in the public sector, and the availability to collect audit evidences and justifications, which may be higher than for current value, especially for specific assets. It avoids the necessity to rely on expertise for evaluation of specific assets, which may be non-neutral and open to litigations.

Measurement bases for assets should also take into account the specificities of historic, cultural or sovereign assets. Measurement at a symbolic value of priceless items, such as historic pieces of art collections or intangible assets, should be mentioned.

### **Specific Matter for Comment 3**

*(Agreement on the approach developed in two models, fair value and deprival value?)*

#### **Comments:**

The ED gives correct and interesting exposition of these two models, including a helpful diagram for the deprival value. But the presentation, focused on these two models, may suggest that there is no other general model.

Deprival value model seems to consider that there is always a measurable replacement cost as the upper limit of valuation, and that there is an existing recoverable amount,

which is not necessarily the case for some specific public assets.

**Specific Matter for Comment 4**

*(Agreement on measurement bases for liabilities?)*

**Comments:**

In line with our comment on SMC 1, measurement bases should not underline prudential principles. It should not also neglect the fact that public entities and governments may have, according to circumstances, through laws or other means of constraint, some ability to weigh on the measurement of liabilities or on their repayment, as History has given many evidences of this.



Finance

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April 30, 2013

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario  
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Dear Sir/Madam:

**Re: Conceptual Framework Exposure Draft 3 – Measurement of Assets and Liabilities in Financial Statements**

Thank you for the opportunity to comment on the IPSASB Conceptual Framework.

The Province of Manitoba does not support *Exposure Draft 3 – Measurement of Assets and Liabilities in Financial Statements*.

The Exposure Draft (ED) as currently written lacks specific criteria for determining the appropriate measurement basis to apply for a specific situation. The Province feels that it is likely that future IPSAS will recommend or permit the fair value measurement of assets and liabilities far beyond what is currently permitted under Canadian public sector accounting standards. In *ED 2 – Elements and Recognition in Financial Statements* the elements of revenue and expenses includes unrealized gains and losses. The unrealized gains and losses would factor into the determination of the net results from operations for the accounting period.

The Province strongly supports the use of the historical cost model for determining the operating capacity of a public sector entity and cost of providing services. Historical cost is verifiable, free from bias, and understood by the users of the financial statements. Currently some IPSAS allow public sector entities to choose either historical cost or fair market value. The ED would allow preparers to select from a number of acceptable measurement bases making comparison between public entities even more difficult. For many of the measurement bases recommended in the ED it would be difficult to obtain the information. The availability of historical cost information would allow for the timely preparation of financial statements. For other measurement bases the cost of obtaining the information would exceed the benefits of obtaining the information.

The Province agrees that using market values for some types of assets and liabilities is appropriate provided that there is an open, active and orderly market. Market values are relevant in determining the financial capacity of a public sector entity for assets and liabilities where there is observable and objective market data. However the unrealized gains and losses on these assets should not be included in the determination of the net revenues and expenses but in a separate statement.

The introduction to IPSASB's conceptual framework was finalized in January 2013. IPSASB has identified the objectives of financial reporting by public sector entities to be providing information that is useful to the users of GPFRs for accountability and decision making purposes. As part of accountability, governments and other public sector entities prepare, approve and make publicly available an annual budget. Financial statements provide information to users in assessing the extent to which the financial results has met its budget objectives.

If the 2 EDs are approved as currently written it will become increasingly difficult for users to understand and compare the reported results in the financial statements against voted budgets which are prepared on a different basis from the financial statements. Summary budgets for most senior Canadian governments are aligned with the basis upon which financial reports are prepared. The Province is concerned with the potential erosion to transparency and accountability in public sector reporting when information is not presented in a clear and understandable way to the general public and their elected representatives.

The difficulty to budget for future unrealized gains and losses makes the IPSASB's proposed model for financial statements to be challenging at best, and likely to create further misalignment between fiscal accountability and financial reporting frameworks.

We would like to again thank IPSASB for the opportunity to comment on this CP.

Yours truly,

"original signed by"

Betty-Anne Pratt, CA  
Provincial Comptroller  
Province of Manitoba

## **Specific Matters for Comment**

**Specific Matter for Comment 1 - Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.**

Yes the Province agrees that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting. In IPSASB's introduction to financial reporting the objectives are to provide information that is useful to the users of financial statements for accountability and decision making purposes.

The measurement objective should be the same as the objective for financial reporting. The measurement objective should be to provide information that is useful to the users of financial statements for accountability and decision making purposes.

**Specific Matter for Comment 2 - Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?**

The Province agrees that market value is an appropriate measurement basis for some assets and liabilities provided there is an open, active and orderly market that is verifiable.

**Specific Matters for Comment 3 - Do you agree with the approaches proposed in Section 4 for application of:**

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and**

The Province agrees with the use of the fair value model for some assets. However we do not view the fair value model to be appropriate for measuring non-financial assets and determining the cost of production. The historical cost model is the most appropriate model for measuring operating capacity and the cost of providing services.

- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.**

The deprival model is far too complicated and complex. The model involves three measurement bases. The cost of using the model would far outweigh the benefits for financial reporting and would delay the preparation of financial statements.

**Specific Matter for Comment 4 - Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?**

The Province agrees that the proposed measurement bases for liabilities are appropriate but historical cost is the most appropriate basis for measuring most liabilities. Long term liabilities should be discounted.

Market value would be appropriate for some liabilities provided there is observable data in an open, active and orderly market that is verifiable.



April 30, 2013

Andreas Bergman  
Chair  
International Public Sector  
Accounting Standards Board  
529 Fifth Avenue, 6th Floor  
New York, NY 10017  
USA

By electronic submission

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Dear Mr. Bergmann,

**Conceptual Framework Exposure Draft 3: Conceptual Framework for  
General Purpose Financial Reporting by Public Sector Entities:  
Measurement of Assets and Liabilities in Financial Statements**

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on the Conceptual Framework Exposure Draft 3: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements (hereinafter referred to as "the CF").

**General Comments**

We remain unconvinced that there is any real justification for there to be significant differences between the private and public sectors in respect of this Phase of the CF. Therefore, whilst we generally believe the proposals in the ED are not problematical from a technical standpoint, we would like to re-affirm our previously stated views as to the need to ensure appropriate liaison with the IASB. Notwithstanding the IPSASB's intention that the CF Project is not a convergence project, we do not believe the IPSASB should finalise its CF in its entirety without having achieved an appropriate degree of consensus with the IASB on key aspects. For example, describing fair value as a measurement model which is in contrast to the IASB's approach to fair value may lead to confusion. We do not see a public sector specific reason that would justify the two Boards approaching this differently. At the time the IPSASB commenced its

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Klaus-Peter Feld, WP StB CPA;  
Manfred Hamann, RA





**Page 2 of 4** to the comment letter to the IPSASB dated April 30, 2013

work the IASB Project had been deferred. At the present time, however, the IASB has reactivated its own project and accelerated its work in this area, and we firmly believe that the IPSASB should consider delaying finalization of the CF to this end.

We further believe that the IPSASB needs to clarify to its constituents how this Phase of the CF will interact with the other Phases of the CF and, in particular, with Phase 4 "Presentation", which will deal with presentation techniques including decisions on information selection within a report. We note that the IASB decided to abandon a phased approach in taking its own work forward. Indeed allowing the necessary time to deal with the interactions of the four Phases would also provide an opportunity for further liaison with the IASB as suggested above.

**Specific Matter for Comment 1:**

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

We agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting. Whilst we agree to some extent with the alternative view of Ken Warren (in particular the risk explained in the last sentence of AV4 and the necessary stipulation set forth in the second sentence of AV5), we do not believe that a measurement objective is needed as such. However it would be useful for the CF to include specific discussion as to necessity to take account of the desire for financial statements to achieve as coherent a picture of the financial position and financial performance as possible to meet the objectives of financial reporting when selecting the measurement bases to be applied to individual items or elements. In this context, the material in BC 5 might usefully be moved forward.

**Specific Matter for Comment 2:**

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

We agree with the current value measurement bases for assets that have been identified in Section 3.



**Page 3 of 4** to the comment letter to the IPSASB dated April 30, 2013

**Specific Matters for Comment 3:**

*Do you agree with the approaches proposed in Section 4 for application of:*

- a. *The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and*

We agree. However, we also refer to our comments above concerning the likelihood that differences between the IPSASB and the IASB's approach to fair value (i.e., fair value as a model rather than as a measurement basis) may cause unnecessary confusion.

- b. *The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.*

We had previously observed that the deprival value concept may not be well-known. We are also concerned that the application of this model in the public sector, in particular in regard to those assets that are significant in the public sector, i.e., non-cash-generating assets, may often not be appropriate. This model would also not be in line with IPSAS 21. Indeed, as is likely that for public sector specific assets in particular, the recoverable amount of assets would often be particularly low, and well below replacement cost, in such cases application of the deprival value model would involve unnecessary work. In addition, using the deprival value method as a measurement has the disadvantage that it would:

- Contradict the idea that measurement basis selection should facilitate an assessment of the operational capacity of the entity (paragraph 1.3 (b)).
- Not facilitate the assessment as to the sufficiency of the entity's capacity to maintain such of its assets, and thus the entity's ability to maintain
- Not facilitate the assessment of the entity's ability to maintain the volume and quality of services (paragraph 1.3 (e))

If with "recoverable amount", the IPSASB intends equating to an amount sufficient for continued service provision, this model is also technically flawed. In our opinion, the value in use as explained in paragraph 44 of IPSAS 21 remains appropriate for non-cash-generating assets.



**Page 4 of 4** to the comment letter to the IPSASB dated April 30, 2013

**Specific Matter for Comment 4:**

*Do you agree with the proposed measurement bases for liabilities in Section 5?  
If not, please indicate which additional measurement bases should be included  
or which measurement bases should not be included in the Framework?*

We agree with the proposed measurement bases for liabilities in Section 5.

We would be pleased to answer any questions that you may have or discuss  
any aspect of this letter.

Yours truly,

Klaus-Peter Naumann  
Chief Executive Director

Viola Eulner  
Technical Manager

541/584

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Our Ref: PSD/ED12/2013

25 April 2013

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

Dear Madam,

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

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Conceptual Framework Exposure Draft 3 issued by the International Public Sector Standards Board (IPSASB) of the International Federation of Accountants.

The Institute believes that the proposed Conceptual Framework envisaged in the Exposure Draft establish the concepts that International Public Sector Accounting Standards Board (IPSAB) will apply in setting International Public Sector Accounting Standards (IPSAS). It integrates the objectives and qualitative characteristics of financial reporting.

We have included our responses to each of the Specific Matters for Comment and IPSASB's Preliminary View in an appendix to this letter.

If you would like to discuss these comments further, please contact the undersigned on [icpak@icpak.com](mailto:icpak@icpak.com) or the undersigned at [nixon.omindi@icpak.com](mailto:nixon.omindi@icpak.com).

Yours Faithfully,

Nixon Omindi  
**Manager, Professional Standard**



*Appendix – ICPAK's Submission on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*

**Specific Matter for Comment 1**

***Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.***

We agree. The objectives of financial reporting offers informed criteria to the preparers of financial statements in choosing measurement basis; objectives are, to a greater extent influenced by the needs of the users of general purpose financial statements for accountability and decision making purposes. Over and above the user requirements, the objectives of financial reporting ensure that the financial statements are fairly stated and meet the minimum threshold of the qualitative characteristics.

**Specific Matter for Comment 2**

***Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?***

ICPAK agreed that the four measurement bases address the dynamics (economic circumstances) coming into play when measuring the value of assets: costs of services, operating and financial capacity. However it is worthwhile noting that other than the market value the rest of the measurement bases are entity specific (applied when the market evidence significantly decreases or not available) involves judgments, assumptions and application of formulae; as such the level of accuracy is impaired.

**Specific Matters for Comment 3**

***Do you agree with the approaches proposed in Section 4 for application of:***

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and***

We are in agreement that the fair value model would be a transaction at arm's length and therefore culminate to an amount that reflects the market conditions. The model therefore gives a more objectively measured exit value. There need to clarify if the terms " market value" and " Fair value" is synonymously used in the context of this Exposure Draft.

- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.***

We agree. However, deprival value is not a separate measurement basis, but rather a decision rule for selecting between three measurement bases: replacement cost, net realizable value, and value in use.

*Appendix – ICPAK's Submission on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*

The model should only be applied in instances where the fair value cannot be applied due to lack of active, open and orderly market, deprival model focuses on the use and management intention regarding the asset (s) in question. The measurement bases in the model involves a great deal of assumptions, estimation and discounting for instance in the case of value in use.

**Specific Matter for Comment 4**

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

We agree that the measurement bases sufficiently address the measurement of liabilities in the financial statement.

**Exposure Draft 3: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements**

1.	<p><b>Specific Matter for Comment 1</b></p> <p>Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.</p>	<p>The selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objective of financial reporting. The measurement objective should be based on a current measurement value. Where Net Selling Price is relevant, in most cases it will be adequately representationally faithful, verifiable and comparable between entities and should be the measurement of choice. Assessments of Net Selling Price are likely to be straightforward to obtain and provide understandable, verifiable information capable of being produced in a timely manner. Since the measurement is based on observable market value it is likely to provide information that is comparable between entities.</p> <p>Value in use would be relevant to assessments of impairment and other limited relevant cases.</p>
2.	<p><b>Specific Matter for Comment 2</b></p> <p>Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?</p>	
3.	<p><b>Specific Matters for Comment 3</b></p> <p>Do you agree with the approaches</p>	<p>The fair value model measurement basis for an asset is the amount for which the asset can be sold for in an active, open and orderly market at the measurement date under current market conditions. In other words, there must be a specific market for</p>

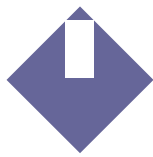
	<p>proposed in Section 4 for application of:</p> <p>(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and</p> <p>(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.</p>	<p>the assets. The model is predicated on certain assumptions:</p> <ol style="list-style-type: none"> <li>1. The asset will be used in its highest &amp; best use, taking into account physical characteristics and uses that are legally permissible and financially feasible.</li> <li>2. The transaction takes place in the principal and most advantageous market for the asset.</li> <li>3. The most appropriate valuation techniques are used which considers assumptions market participants will use when pricing the asset.</li> </ol> <p>We do not agree with this measurement basis because the assumptions appear to be impractical for non-financial assets.</p> <p>The first assumption implies the optimal efficiency of the asset, which is dependent certain factors. For instance, availability of competent staff to put the machinery to use, training costs associated with raising the capacity of staff, is there a market for the end product, the economic climate may affect maintenance/servicing of machinery, the remaining useful life of the asset also impacts on the optimal use.</p> <p>The second assumption of the transaction taking place in the principal &amp; most advantageous market may be difficult to assess. In the principal and most advantageous market, there is likely to be many competitors i.e. entities that may be in the same line of business. This may impact on the price an organization is willing to pay.</p> <p>Determining the most appropriate valuation technique based on assumptions made by market participants seems as if it is going to be a subjective process.</p> <p>Additionally, the model excludes transaction costs in selling an asset. The proceeds of the sale will therefore seem more because it did not reflect costs which will be associated with the sale of the asset.</p>
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<b>4.</b>	<p><b>Specific Matter for Comment 4</b></p> <p>Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?</p>	<p>a. Historical cost: Liabilities are recorded at the amount of proceeds received in exchange for the obligation or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.</p> <p>Discussion:</p> <p>This is a very practical measurement bases, notwithstanding the limitations of not being able to be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages or in situations in which the liability vary in amount such as defined benefit pension liabilities.</p> <p>b. Market value: this refers to trading in a competitive auction setting. Market value is often used interchangeably with <i>open market value</i>, <i>fair value</i> or <i>fair market value</i>, although these terms have distinct definitions in different standards, and may differ in some circumstances.</p> <p>Discussion:</p> <p>This seems more appropriate in a situation where there would be a third party who would accept the liability being transferred to him. (Believed that it would be much more than the actual amount outstanding)</p> <p>However, because it is extremely unlikely that there will be an open, active and orderly market for liabilities, this is the only one I think that could be out.</p> <p>c. Cost of release: the amount to which to exit from an obligation e.g. that which is contained in an agreement such as cancellation clause.</p>

		<p>Discussion:</p> <p>This could involve cash transaction in which there may be a discount if there is an (immediate exit from the obligation) in comparison to a credit situation where a premium would be charged by the third party to (accept the transfer of the liability from the obligator). Not aware that there is so much flexibility with public entities.</p> <p>d. Assumption price: “the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability”</p> <p>Discussion:</p> <p>This is similar to “<b>cost of release</b>” i.e. the amount that a third party would charge to accept the transfer of the liability from the obligator.</p> <p>e. Cost of fulfillment:</p> <p>Discussion:</p> <p>Appears to mean that the entity could end up paying more than what was originally agreed. However, based on the operations of Gov. Entities, this would only be practical in situations in which the estimates or prices are quoted in foreign currency and or being imported, thus the cost of fulfillment could be different from the estimated price.</p> <p><b><u>Conclusion</u></b></p> <p>There would be the need to look at how the liabilities were incurred / created by the entities and consider the uniqueness of the operations of government entities in terms of procurement process. In a commercial company, all would be appropriate.</p>
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		The measurement bases as they are capture the many possibilities. However, the appropriate measurement bases are highly dependent on how the transaction was created and the authority of the entity which will have to settle the obligation.
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**The Japanese Institute of  
Certified Public Accountants**

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April 30, 2013

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

***Comments on the Conceptual Framework Exposure Draft 3  
“Conceptual Framework for General Purpose Financial Reporting by  
Public Sector Entities:  
Measurement of Assets and Liabilities in Financial Statements”***

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Conceptual Framework Exposure Draft 3 (CF-ED3), “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements,” as follows.

**I. Comments on Specific Matters**

**Specific Matter for Comment 1:**

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and
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give your reasons.

We agree with the proposal. However, for further clarification, we suggest that the statement in paragraph 1.3 of the CF-ED3 – “[T]he selection of a measurement basis is particularly important to meeting the information needs of users for accountability and decision-making purposes if it enables assessments of:” – be amended as follows:

“An appropriate measurement basis should be selected to meet the information needs of primary users of GPFRs for accountability and decision-making purposes. As the following three factors would be highly important for the users of GPFRs, it is essential that the entity assesses whether the selected measurement basis would be able to provide the following information:”

In addition, as we believe that the users of GPFRs would mainly be interested in the information referred to in (a), (b) and (c) stated in paragraph 1.3, we suggest that secondary factors such as in (d), (e) and (f) should be moved to the Basis for Conclusions.

**Specific Matter for Comment 2:**

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

We generally agree with the use of the current value measurement bases for assets identified in Section 3.

However, we suggest that the IPSASB further consider the advantages and drawbacks of using the historical cost and the current value measurement bases, and clarify as to when it is more relevant to use each of these.

Also, in view of the fact that holding gains may sometimes arise when the replacement cost is selected as a measurement basis, we believe that the significance of the holding gains over the financial performance of a public sector entity should be explained, particularly in reference to the fixed assets

held for an administrative purpose.

Furthermore, the statement in paragraph 3.11 of CF-ED3 – “[I]f market-based information is used for pricing decisions, the users of services could be charged with higher costs than those actually incurred” – would be applicable for all current value measurement bases, rather than solely for a market value basis.

Specific Matter for Comment 3:

Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

We agree to the content of fair value model and deprival value model. However, we propose that Section 4 should be moved to Basis for Conclusions for the following reasons.

We are of the view that the fair value model defined in the CF-ED3 is a technique for estimating a market value, and is not guiding the selection of an appropriate measurement basis. We believe the fair value model should be prescribed in the relevant IPSASs as an estimation technique.

We are also of the view that the statements on the deprival value model in Section 4 are redundant, as paragraph 1.3 already describes the perspectives to be employed on selecting an appropriate measurement basis.

Specific Matter for Comment 4:

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

We agree with the proposal.

## II. Other comments

With regard to the statement in paragraph 2.7 that “[H]istorical cost is not intended to provide this information when current exit values are significantly higher,” the IPSASB should clarify that the case in which current exit values are significantly lower than the historical cost would not be useful for the assessment of financial capacity.

Yours sincerely,

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

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

## Comments on CF–ED3

by professor Lasse Oulasvirta, University of Tampere, School of Management, Finland

### **Specific Matter for Comment 1**

In order to be consistent in a Conceptual Framework (CF) the selection of a measurement basis should be connected to the objectives of financial reporting.

In the private sector regarding for-profit corporations investor-creditor information needs are decisive. That is why fair value measurement is important, in other words the various prices of debt-equity instruments, their purchase prices and their future selling prices, included dividends, in the stock market. Based on this kind of information investors and owners can make their choices.

This is not the case in the public sector where the objective of general purpose financial reporting is to serve the information needs of principals of the public sector, that is the information needs of voters/ tax-payers and legislative bodies who represent citizens. The most essential information needs concern the budget accomplishment and the value for money created by the accountable administrative entities and service providers. Other important information needs of the accountable public sector entities concern the balance of revenues earned and expenses incurred and the result in the income sheet, the annual deficit/surplus that accrues to the balance sheet.

The most important measurement basis for these objectives are historical costs and entry values, and on the other hand also non-financial information of service outputs that are put into relation to financial cost figures. Fair value measurement containing speculative market valuations and revaluations of assets are not important in the public tax-financed sector where main part of assets are not meant to be sold in the market. Fair value measurement may, on the contrary, lower the quality of general purpose financial statements (GPFS), because of including non-realized items, for instance holding gains and losses, into the information of the income sheet. Fair value measurement may also make general purpose financial statements more difficult to audit in a reliable manner.

One objective that is not clearly stated in the Exposure Draft is that realized transactions (both exchange and non-exchange) and expenses and revenues must be matched for the accounting period. This tells the balance between expenses and revenues and the financial result of the accounting period. An income sheet approach would serve better than the balance sheet approach chosen in the Exposure Draft 3 public sector information needs.

### **Specific Matter for Comment 2**

Historical costs and nominal values are for many classes of assets and liabilities the most reliable and auditable measurement basis for accounting figures fulfilling public sector information needs. Current value measurement bases are relevant bases for financial instruments held for short term purposes. In general, always when current values are important, additional information of current values can be given in the notes of GPFSs.



### **Specific Matters for Comment 3**

I do not agree that the fair value measurement model would be a suitable comprehensive model for public sector GPFs, it may be a suitable model for GPFs in the private sector markets but not in the public sector tax-financed sector.

Included to the deprival value model replacement costs are a relevant measurement basis for operational assets, for instance, for informing tax-payers and public sector decision making bodies of costs of maintaining the infrastructure assets and carrying them over in good shape to coming generations. The best places for this kind of information are the notes to GPFs and the annual activity reports.



**WALES AUDIT OFFICE**  
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Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
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CANADA

Date 30 April 2013  
Our ref 0430.mju.IPSASB-ED3  
Pages 1 of 4

Submitted electronically

Dear Stephenie Fox  
**IPSASB Exposure Draft CF-ED3**

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

The Auditor General for Wales welcomes the opportunity to comment on this IPSASB Exposure Draft. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

The Auditor General, and the auditors he appoints, are responsible for audits of the Welsh devolved public sector, which includes:

- The Welsh Government;
- Welsh Government sponsored and other related bodies;
- Local government bodies in Wales;
- Local health bodies in Wales; and
- Certain publicly owned companies.

We are fully supportive of the development by IPSASB of a conceptual framework to underpin the development of a comprehensive and high quality suite of financial reporting standards for the public sector.

We welcome the next stage of the development by IPSASB of its conceptual framework, including the statement in Paragraph 1.1 that the Exposure Draft proposes measurement bases to be used only in general purpose financial statements, before addressing the other aspects of financial reporting (such as prospective financial information) that are covered in the conceptual framework.

Overall, we approve of the Board's efforts to include a complete range of measurement bases and to identify factors that are relevant in selecting an appropriate measurement base. However we consider that the Exposure Draft could be made more concise and less discursive, particularly in relation to section 4 'Selection of Measurement Bases and Measurement Models'. While we agree with the content, we consider that this section is too detailed for a conceptual framework. The two measurement models (fair value and deprival value) would be better located in specific standards; section 4 of the document should therefore be removed.

We set out in Appendix 1 our response to the specific matters for comment.

I hope that you find our submission appended to this letter useful. If you have any queries regarding our response, please contact my colleague Iolo Llewelyn (e-mail: [iolo.llewelyn@wao.gov.uk](mailto:iolo.llewelyn@wao.gov.uk) or telephone: 07766 505189).

Yours sincerely,



**Mike Usher**  
**Group Director – Technical**

## Appendix 1: Response to Consultation Questions

Question	Response
<p>1. Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting?</p> <p>If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.</p>	<p>We agree that the selection of a measurement base should be based on the extent to which that base meets the overall objectives of financial reporting.</p> <p>However, we consider that a 'measurement objective' as we understand it i.e. an overall statement in the Framework setting out what selecting a specific measurement base aims to achieve will not unduly restrict the choice of measurement base.</p> <p>A suitable measurement objective could be 'to select the measurement base which, having regard to the desired qualitative characteristics (QCs) of information included in the GPFRs of public sector entities and the cost of measurement, provides the most useful information for accountability and decision making purposes'.</p>
<p>2. Do you agree that the current value measurement bases for assets that have been identified in section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?</p>	<p>We agree that the range of current value measurement bases identified in section 3 is complete, balanced and fair.</p>
<p>3. Do you agree with the approaches proposed in section 4 for the application of:</p> <p>(a) The fair value measurement model to</p>	<p>We agree in principle with the content of section 4 relating to the fair value and deprival value models as these are generally consistent with guidance issued</p>

Question	Response
<p>estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and</p> <p>(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not, please give your reasons</p>	<p>by other standard setters.</p> <p>As stated in our covering letter, we would however question whether this level of detail is necessary in the Conceptual Framework. We consider that the inclusion of a measurement objective would be sufficient content for a conceptual framework and would inform the selection of suitable measurement bases/models for individual standards.</p>
<p>4. Do you agree with the proposed measurement bases for liabilities in Section 5?</p> <p>If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?</p>	<p>We agree with the proposed measurement bases for liabilities and have no additional bases that we would include in the Framework.</p>



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28<sup>th</sup> April 2013

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

Dear Stephenie,

**Comments on Conceptual Framework Exposure Draft Three (3) – Measurement of Assets and Liabilities in Financial Statements.**

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Exposure Draft three (3) - Measurement of Assets and Liabilities in Financial Statements; issued by the International Public Sector Accounting Standards Board (IPSASB), in November 2012.

We strongly support the IPASB's project which is being undertaken, as it will provide a framework for the consistent and comparable preparation and presentation of financial statement in public sector entities' financial statements.

The Institute deliberated the ED and our responses to specific questions are as follows:

### Question 1

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

#### Comment

Yes we do agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting rather than a principal measurement method. The proposed measurement bases would enhance comparability, clarity and consistency.

### Question 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

#### Comment

The Institute agrees with the four proposed current value measurement bases.

### Question 3

Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

#### Comment

We have no comment here.

#### **Question 4**

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

#### **Comment**

We do agree with the proposed measurement bases for liabilities as outlined in Section 5, we have no divergent views.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi  
**Technical and Standards Manager**



UNITED NATIONS SYSTEM



SYSTEME DES NATIONS UNIES

**Chief Executives Board  
for Coordination**

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

**SUBMISSION: Conceptual Framework Exposure Draft 3: *Measurement of Assets and Liabilities in Financial Statements***

30 April 2013

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

**Conceptual Framework Exposure Draft 3**

1 Thank you for the opportunity to comment on Conceptual Framework Exposure Draft 3 (CF-ED3), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*.

**United Nations System Task Force on Accounting Standards**

2 The United Nations System Task Force on Accounting Standards (Task Force) appreciates the work that the IPSASB is carrying out in developing accounting standards for public sector entities, including international organizations such as those making up the United Nations system. The Task Force is an inter-agency group consisting of directors of accounting, chief accountants and chief financial officers from United Nations System organizations. The comments below represent the views of Members of the Task Force. The individual organizations that provided comments on this submission and concurred with its submission to the IPSASB are listed in Appendix 1. Where an individual organization disagreed with a particular recommendation but agreed to the recommendation going forward to the IPSASB, this has been noted against the individual responses in Appendix 2.

### **General Comments**

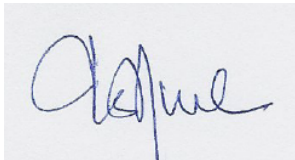
3 We support IPSASB's efforts in developing the Conceptual Framework, which establishes parameters for financial reporting under IPSAS and clarifies concepts not previously explicitly covered by the Standards. We note, however, that discussion in the CF-ED3 focuses mainly on specific attributes and challenges of governments, making it less useful and applicable for use by other public sector entities. This is also true for other documents issued as part of the IPSASB's Conceptual Framework project.

### **Specific Matters for Comments**

4 Our detailed comments on the specific matters for comment identified in CF-ED3 are attached as Appendix 2.

5 Should you have any queries on our comments, please contact Ms. Dinara Alieva, Financial Analyst, System-wide IPSAS Project Team at [alievad@un.org](mailto:alievad@un.org).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Chandramouli Ramanathan', is shown within a light gray rectangular box.

Chandramouli Ramanathan

Deputy Controller, United Nations &  
Chair, Task Force on Accounting Standards

[ramanathanc@un.org](mailto:ramanathanc@un.org)

## APPENDIX 1: UNITED NATIONS SYSTEM TASK FORCE ON ACCOUNTING STANDARDS

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

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

## **APPENDIX 2: CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS (CF-ED3 or Exposure Draft)**

In response to the IPSASB's request for comments on these Specific Matters please find below comments of the Task Force:

### **Specific Matter for Comment 1**

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

#### **Response:**

The Task Force has no objections against proposed selection of measurement basis based on the extent to which they meet the objectives of financial reporting. However application of this proposal in public sector environment might need to be further considered by the Board.

For example, it was noted that Exposure Draft derives three assessment criteria from objectives of financial reporting which include financial capacity, operational capacity and cost of services provided. Whereas operational capacity and cost of services appear to be clear and logical criteria, practical application of financial capacity as a criterion used to assess relevance of measurement bases appears to be more complex. An assessment of financial capacity requires information on the amount that would be received on sale of an asset to fund operating capacity of a reporting entity, i.e. its resources to support provision of services in future. However, most of the assets owned by public sector entities are used to provide services. If a public sector entity was to sell its assets it would not be able to support provision of services in future, i.e. would fail to meet requirements of operational capacity criterion. Although public sector entity might decide to sell an asset, it is usually because an asset is no longer required for provision of a service or a related service is no longer provided. In other words, the need to provide services determines what assets are kept or sold rather than the sale of an asset determines whether a service would be provided. Thus the proposed application of the criterion of financial capacity may not be as relevant to the public sector entities and useful to the users of GPFS as implied in the CF-ED 3. The Task Force recommends that the IPSASB reassesses relevance and usefulness of the financial capacity criterion as it is currently presented in CF-ED3. Perhaps it could be merged with the criterion of operational capacity which is defined as "physical and other resources available to support the provision of services in future periods" (para. 1.3). Assets owned by a reporting entity in public sector environment are typically part of such resources.

The Task Force also notes that the CF-ED3 does not prescribe a single measurement basis (or combination of bases), but rather identifies factors that are relevant in selecting

a measurement basis. This proposed approach is in line with recommendations of the Task Force submitted to the IPSASB previously as feedback on draft CF-CP3. It was also noted that CF-ED3 reviews measurement bases used in financial statements and does not consider application of these bases to other GPFRs.

### **Specific Matter for Comment 2**

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

### **Response:**

The CF-ED3 proposes five measurement bases, including historical cost and four methods of current value measurement (market value, replacement cost, net selling price and value in use). Many of these bases have been previously used and defined by the Board in previously issued IPSASs. The CF-ED3 also discusses strengths and weaknesses of each method, including their assessment against three criteria referred to in response to SMC 1 above. The IPSASB recognizes that most bases have limitations that outweigh potential benefits of their application and considers them as less relevant to non-cash generating assets of a public sector entity whose primary goal is provide service rather than maximize profits / return on investment. Among these bases with limited relevance are market value in markets that are not open, active and orderly, value in use and net selling price bases. As discussed in the main body of CF-ED3 and in the Basis for Conclusions (para. BC 19), the Board seems to favour replacement cost basis as it meets most criteria and qualitative characteristics (QC). The discussion also includes a reference to a combined use of historical and replacement cost (para. 3.27). However CF-ED3 does not include any evidence to support its assumption that use of replacement cost basis (on its own or in combination with historical cost basis) would result in a more superior outcome for users of financial statements than, for example, use of historical cost basis, while cost of switching to a new measurement basis may be very significant for preparers of financial statements.

In addition, replacement cost basis, along with most other proposed bases, does not meet requirements of the criterion of reporting on financial capacity. Only one basis out of five meets such criterion – the net selling price basis. It does not, however, meet other criteria and is said to be relevant only where a reporting entity intends to sell asset(s).

Regardless of the above mentioned limitations, the net selling price basis is repeatedly referred to in the CF-ED3 as a basis for preparing supplementary information on asset values because it meets criterion of reporting on financial capacity. It is not clear whether IPSASB envisages that the net selling price basis would be applied to all assets of a reporting entity or only to those which an entity intends to sell. The Task Force expressed concern regarding relevance of the criterion of financial capacity to selection of measurement bases in response to SMC 1 above. Moreover, the need to use an additional

measurement basis comes with considerable costs to preparers of financial statements. CF-ED3 does not include a discussion or a reference to the cost-benefit analysis of reporting asset values on the net selling price basis in addition to another measurement basis. For these reasons the Task Force does not consider use of the net selling price basis to be essential for reporting asset values in financial statements, unless a reporting entity intends to sell the assets.

The Task Force is of the view that other current value measurement bases for assets identified in Section 3 of the CF-ED3 can be considered by preparers of financial statements along with historical cost basis for measurement of assets.

The Task Force also notes with concern that proposed simultaneous application of multiple measurement bases might make information on asset values very complex and difficult to understand for users of financial statements. It may also affect comparability of information with other entities' financial statements since entities may choose different bases to measure similar assets arriving at significantly different results. It should therefore be considered whether use of multiple measurement bases, including simultaneous application thereof, to enhance usefulness of GPFS may actually detract from this goal due to complexity of the proposed approach.

The World Health Organization, a member of the Task Force, recommends expanding consideration of issues related to subsequent measurement of assets and liabilities in the CF-ED3.

### **Specific Matter for Comment 3**

Do you agree with the approaches proposed in Section 4 for application of:

(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and

### **Response:**

The Task Force notes IPSASB's conclusion that fair value should not be proposed as a measurement basis since it is very similar to market value and inclusion of both measurement bases is likely to be confusing (BC 24, BC 27). Instead fair value is used as a measurement model for the estimation of market value when the market is inactive. Fair value is currently defined in IPSAS as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction" (IPSASB Handbook 2012, Glossary of Defined Terms). Since concept of fair value in CF-ED3 appears to be aligned with that in previously issued pronouncements of the Board and CF-ED3 does not propose change in the definition of the fair value, the Task Force is inclined to support the approach proposed in Section 4 of the Exposure Draft. However it is noted that practical application of the fair value measurement model has not been thoroughly discussed in the CF-ED3 beyond introduction of assumptions to be used in this model.

(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

**Response:**

The Task Force notes IPSASB's decision not to require the use of the deprival value model. The Board concluded that this model can be used to assess the relevance of three measurement bases for operational assets – replacement cost, net selling price and value in use (BC 29). It is important to note that the deprival value model addresses only the relevance of said measurement bases while objectives of financial reporting and QC continue to be the primary considerations in the selection of an appropriate basis (BC 30). Therefore even if deprival value model suggests a particular measurement basis a reporting entity may prefer a different measurement basis, for example, to achieve higher degree of compliance with QC.

Use of the deprival value method can be a complex and costly exercise as a reporting entity needs to calculate and compare outcomes of three possible measurement bases applied to the same asset and/or group of assets. This is a serious impediment for any reporting entity, but would be especially difficult for international public sector organizations which acquire assets through countless variations of special arrangements, including but not limited to donated assets and use of project assets, and often operate in areas with inactive markets.

The Task Force notes that CF-ED3 refers to use of a surrogate in cases where one measurement basis is regarded as the most appropriate conceptually, but another measurement basis may be used instead because it is considered to be not materially different or for other reasons. The Task Force supports this proposal.

**Specific Matter for Comment 4**

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

**Response:**

The Task Force notes that Section 5 of the CF-ED3 proposes measurement bases for liabilities based on the same principles that it applies to measurement of assets. However measurement bases for liabilities have different limitations as compared to bases for measurement of assets. The discussion in Section 5 builds on but does not replicate material presented in Sections 2 and 3 of the CF-ED3.

It is noted that CF-ED 3 uses a recurring reference to resource-efficient course of action throughout the discussion in Section 5. Use of the most resource-efficient course of action implies that an entity would choose basis to measure its liability based on the most resource-efficient way to release such liability. For example, if the most resource-

efficient course available to the entity is transfer of the liability, such liability is to be measured using 'cost of release' basis (which mirrors the net selling price basis for assets). The proposed approach does not seem to take into consideration that in public sector entities do not pursue maximization of profits, but are rather focused on provision of services and settling of obligations made to different parts of community, often on humanitarian grounds. Hence even if the most resource-efficient way for an entity would be to immediately release its liability by transferring it to the third party, it would probably still prefer to fulfill the said liability through provision of service to meet expectations of beneficiaries and donors. Hence realities of operating in public sector environment make concept of resource-efficient course of action significantly less relevant to selecting measurement basis for liabilities as compared to private sector operations. The Task Force therefore recommends that the IPSASB reconsiders broad use of the concept of 'resource-efficient course of action' in CF-ED3 and proposes a different approach to selecting measurement basis for liabilities, which would be more relevant to the public sector entities. For example, reporting entities might be encouraged to select measurement basis depending on their intention towards settling a particular liability – through its fulfillment by provision of services or through its immediate release. This approach would likely result in a more realistic and therefore more useful presentation of entity's liabilities to users of its financial statements.





## Department of Treasury and Finance

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Ms Stephenie Fox  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Sir/Madam

**Exposure Draft 3 “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements”**

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) in relation to the abovementioned Exposure Draft.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC considers it would be far more effective for the IPSASB to decide which concept of capital (and/or capital maintenance) is most relevant for the measurement of assets and liabilities by public sector entities. Following on from that, HoTARAC believes the Framework should articulate a single ideal measurement basis, to achieve consistency across financial statement items and comparability between entities across jurisdictions. In this respect, HoTARAC prefers the fair value measurement basis, as explained in Specific Matter for Comment 3.

HoTARAC notes the IPSASB’s comment on page 6 of the Exposure Draft 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.

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.

In relation to the Specific Matters for Comment in the Exposure Draft, and certain other matters, Attachment A sets out HoTARAC's views.

Any queries regarding HoTARAC's views and recommendations on this Exposure Draft should be directed to Ms Alison Cuthbert from Queensland Treasury and Trade on +61 7 3035 1431 or by email to [alison.cuthbert@treasury.qld.gov.au](mailto:alison.cuthbert@treasury.qld.gov.au)

Yours sincerely



Grant Hehir

**CHAIR**

**HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY  
COMMITTEE**

29 April 2013

## ATTACHMENT A

### **HoTARAC RESPONSE TO IPSASB EXPOSURE DRAFT “CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS”**

#### **General comments**

HoTARAC acknowledges that the IPSASB has improved its discussion on this topic by including several of HoTARAC’s suggestions made in response to the previous Consultation Paper on this issue.

In this regard, HoTARAC offers the following overall comments.

#### Preferred Measurement Basis

As stated in response to the Consultation Paper, consistent with the Alternative View and as mentioned in response to Specific Matter for Comment 2, HoTARAC is strongly of the view that the Framework should articulate its position about the ideal measurement basis that meets the financial reporting objectives and caters for the inevitable need for trade-offs between qualitative characteristics. This would promote consistency across standards and comparability between entities and across jurisdictions.

In this respect, HoTARAC believes the most appropriate ideal measurement basis should be “fair value”, as defined in IFRS 13 *Fair Value Measurement*. This is further explained in response to Specific Matter for Comment 3(a).

#### IFRS Conceptual Framework

HoTARAC notes the IPSASB’s comment on page 6 of the ED that “the purpose of the IPSASB’s project is not to interpret the application of the IASB Framework to the public sector”. However, as per HoTARAC’s previous submission on the Consultation Paper, 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.

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.

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### GFS Convergence

HoTARAC prefers that the focus be on ensuring consistency with the IASB's framework and only departing from it where a specific public sector issue requires it. However, should the IPSASB identify more than one measurement basis as being suitable, HoTARAC would support selection of that basis that is consistent with IFRS 13 and most closely aligns with the GFS statistical model.

### Alignment with Current IPSASs

It is unclear how the conclusion of paragraph BC26 that market value is of slight relevance for public sector activities aligns with existing references to "fair value" in IPSASs. For example, IPSAS 17 *Property, plant and equipment* and IPSAS 31 *Intangibles* include a number of references to fair value.

HoTARAC 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.

#### **Specific Matter for Comment 1**

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

HoTARAC believes that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objective of financial reporting and the qualitative characteristics. Consistent with the Alternative View, HoTARAC considers that the development of a specific measurement objective would supplement and/or tailor the broader objectives of financial reporting. Such a decision is fundamental to decisions about measurement bases and, accordingly, should have prominence in the Framework.

Consistent with HoTARAC's submission on the Consultation Paper, HoTARAC disagrees with the IPSASB's decision to not prescribe a single measurement basis. A Framework should represent a conceptual ideal. The consequences of this lack of conceptual underpinning are likely to be inconsistencies across financial statement items and a lack of comparability between entities across jurisdictions. Hence, HoTARAC disagrees with the last sentence in paragraph BC7, and HoTARAC agrees with Mr Ken Warren's comments in the Alternative View about the need for a measurement objective.

#### **Specific Matter for Comment 2**

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*



## ATTACHMENT A

As noted in the General Comments above, the Framework needs to be expanded to articulate a preferred measurement basis. Further, if a particular measurement basis has shortcomings (as mentioned in the ED in paragraphs 3.50 and BC21 regarding "value in use"), the IPSASB should form a definitive position on whether such a basis should be used at all by public sector entities. This would better support the IPSASB in deliberations at the standards "level", and would provide useful conceptual guidance for preparers and users of public sector entities' general purpose financial statements. HoTARAC is also concerned about the relative costs versus benefits of an approach of requiring multiple valuations for a given item.

In HoTARAC's view, the measurement bases identified for assets are not mutually exclusive and mix measurement bases with valuation techniques. HoTARAC prefers the distinction made in IFRS 13 between the fair value measurement basis and the valuation techniques to estimate fair value (i.e. market approach, cost approach and income approach).

For example, in HoTARAC's view, both market value and replacement cost represent fair value and net selling price is based on fair value (i.e. the only difference is the deduction of selling costs) and all three are examples of valuation techniques, rather than separate measurement bases. We also believe that replacement cost can be "non-entity" specific and note that the IASB regards the use of the cost approach as consistent with the definition of fair value based on a current exit value.

### Entry versus Exit prices

The discussion at paragraph 1.5 in the Exposure Draft makes a distinction between entry and exit values. However, HoTARAC believes that the IPSASB should consider the analysis done by the IASB in this regard, where they come to the conclusion that it is unnecessary to make a distinction between a current entry price and a current exit price where there is a market based measurement objective (refer to IFRS 13, paragraph BC44).

Specifically, the IASB notes that entry and exit price will be equal in the same market and that the cost approach is consistent with an exit price. Further, the IASB concludes that an exit price is consistent with fair value regardless of whether an entity intends to use or sell an asset (refer to IFRS 13, paragraph BC39). In contrast, the IPSASB implies that the cost approach does not indicate what would be received on sale of an asset (paragraph 3.29).

Similarly, HoTARAC questions the IPSASB's view that selling price is not useful for an assessment of operating capacity (paragraph 3.37) and that replacement cost is not relevant to assessing financial capacity (paragraph 3.29). On the basis of the IASB's analysis, as both valuations are relevant, whether an entity intends to use or sell, they are also arguably both relevant to assessing operating and financial capacity.

HoTARAC believes that the IPSASB should consider the IASB's deliberations on this issue and only depart from their conclusions where there is a strong public sector specific reason for doing so.

### Historical cost

HoTARAC believes that historical cost generally provides less relevant information than the current value measurement techniques discussed in section 3, and should only be used in rare circumstances.

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HoTARAC notes the comment in paragraph 2.4 that “historical cost information demonstrates the extent to which transactions have been in accordance with budgets and thereby meets the objective of accountability”. However, as indicated in paragraph BC15, budgets may instead be prepared on the basis of anticipated prices.

### Market value

Table 1 (Summary of Current Value Measurement Bases) indicates that a market value in an inactive market would be an exit value. However, this is inconsistent with paragraph 3.6 which states that market value may reflect either an entry or exit value.

### Replacement cost

The line item in Table 1 for replacement cost states that it would produce an observable value. However, this appears contrary to the discussion in the later subsection dealing with replacement cost.

The discussion in paragraph 3.23 is confusing in respect of the suitability of replacement cost, and the comments about value in terms of service potential. The definition of replacement cost in paragraph 3.17 refers to valuing an asset according to the cost of replacing its service potential as at reporting date. Also, the last sentence of paragraph 3.23 states that “replacement cost represents the highest potential value of an asset” (underlining added). Service potential necessarily refers to future service potential or economic benefits. However, the second sentence of paragraph 3.23 attempts to distinguish between service potential as at reporting date and future benefits. HoTARAC considers that such future benefits also represent service potential as at reporting date, and therefore it is suggested the IPSASB revisit the arguments in paragraph 3.23. Such arguments also seem to imply that there is little merit in the value in use basis discussed later in the Exposure Draft, so clarity about this would be preferred.

In relation to the discussion about replacement cost, paragraph 3.27 refers to “realized holding gains”. This discussion implies that replacement cost on its own may be insufficient (as historical cost information would also be required). HoTARAC is concerned about the practical/cost implications of separately identifying price changes reflected in replacement costs. HoTARAC also recommends inclusion of an elaboration about how such “holding gains” are “realized”.

HoTARAC recommends that the discussion about replacement cost examine whether and how different entity circumstances should impact on the costs reflected in the replacement cost (borrowing costs, for example).

We also note that the IPSASB states that replacement cost differs from reproduction cost (refer to paragraph 3.20). HoTARAC believes that it is more accurate to say that reproduction cost is an application of the cost approach. That is, consistent with the International Valuation Standards Council’s Technical Information Paper TIP 2 *The Cost Approach for Tangible Assets*, paragraph 18, in limited circumstances reproduction cost will be appropriate where the service capacity of an asset can only be replaced by replicating the asset, by acquiring or constructing a replica.

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### Net selling price

Paragraph 3.33 and Table 1 both state that a net selling price is an entity-specific value. However, HoTARAC considers net selling price is similar to determining a market value for a given asset in an active market (both of which reflect what an external party would pay for an asset). As paragraph 3.39 states, "the fact that [net selling price] is based on observable market values means that it is likely to provide information that is comparable between entities". Therefore, HoTARAC suggests that the IPSASB revisit its view that net selling price is entity-specific.

Paragraph 3.38 suggests that net selling price information may be more useful as supplementary information, rather than being recognised directly in the financial statements. Paragraph 3.29 also suggested that replacement cost information may need to be supplemented by an alternative value, like net selling price. HoTARAC is concerned about the practical/cost implications of determining multiple valuations for a given item. Consistent with views expressed elsewhere in this response, HoTARAC strongly recommends that the IPSASB settle on one measurement basis that reasonably satisfies all purposes.

### Income approach

As mentioned in response to the Consultation Paper, HoTARAC also believes the Framework should deal with income-based (e.g. "present value") valuation approaches, as there are likely to be some public sector assets involved in commercial activities. Such discussion could address 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) or where the cash flows are being artificially reduced due to significant subsidies.

### Other relevant matters

Other matters that HoTARAC believes should be addressed in the Framework (for both assets and liabilities, as far as relevant) include:

- whether values should be determined on a stand-alone basis, or on the basis of being used in conjunction with other assets/liabilities;
- clear statements that the more objective and/or verifiable the measurement inputs are, the better is the measurement outcome; and
- assuming the IPSASB determines an ideal measurement basis, how to deal with situations where the single ideal measurement basis (refer to our General Comments and response to Specific Matter for Comment 1) is not appropriate nor practicable.

As mentioned in our response to the Consultation Paper, in light of inconsistencies in 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 model, basis, proxy, valuation technique, etc. For example, "replacement cost" is generally considered to be one potential proxy for "fair value" in circumstances where there are no observable market transactions for the particular asset, and is an example of a valuation technique, rather than being a measurement basis itself.

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### Specific Matter for Comment 3

*Do you agree with the approaches proposed in Section 4 for application of:*

*(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and*

*(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.*

HoTARAC agrees that the IPSASB's discussion should include all the bases and techniques in Section 4. However, HoTARAC has the following comments:

- (a) As stated in our General Comments and in our response on the Consultation Paper, HoTARAC strongly prefers the IFRS 13 *Fair Value Measurement* basis for all assets of public sector entities. Therefore, HoTARAC agrees, to an extent, with the comments by Mr Ken Warren in paragraph AV13. However, as mentioned in the General Comments above, HoTARAC believes the fair value basis can be applied to all assets and the use of the deprival model is unnecessary.

HoTARAC disagrees with the IPSASB's view that fair value is not an appropriate measurement basis for the public sector, as "replacement cost" is a technique to determine "fair value" in circumstances where there are no observable market transactions for the particular asset, consistent with IFRSs and GFS.

Fair value is a widely used and 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 qualitative characteristics of financial information as determined in Phase 1 of the Framework. "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).

In HoTARAC's view, the discussion on the fair value basis should be expanded to incorporate the market, income and cost approaches to valuation techniques, and establish a hierarchy of data inputs to deal with the situation where no active market exists.

HoTARAC believes the discussion on fair value is not clear. Paragraph BC24 states that fair value is similar to market value and the inclusion of both would be confusing. Paragraph BC27 then states that fair value is a useful



## ATTACHMENT A

measurement model for the estimation of market value. Paragraph BC26 appears to exclude fair value (and by extension market value) for public sector activities. Paragraph 3.30 states that replacement cost is particularly relevant to assessments of operational capacity, so HoTARAC cannot see why the fair value model cannot be applied to all assets and liabilities.

HoTARAC also notes that paragraphs 1.10 and 3.1 state the fair value model is to be used when markets are inactive. Those paragraphs imply a more restrictive interpretation, compared to the IASB's approach (where fair value is also used where markets are active). However, this is not apparent from the discussion in paragraphs 4.5 – 4.8 of the Exposure Draft. Paragraph BC24 also indicates that the IPSASB's concept is narrower in application, compared to the IASB's "fair value" concept. Such a difference may give rise to some level of divergence from the IASB. It also raises questions about the intent of the fair value references that already exist in various IPSAS. Therefore, HoTARAC strongly recommends that the IPSASB review its connotation of "fair value" for both the Framework and individual IPSAS.

- (b) In contrast to the Alternative View, HoTARAC does not support use of the deprival value model. From a practical perspective, HoTARAC is concerned about the potential for inconsistencies with existing IPSASs, IFRS 13 and GFS, and potential costs for entities in determining more than one value for a given asset.

The ED distinguishes between operational and financial capacity and proposes using the deprival model to guide the selection of an appropriate measurement base for operational assets where evaluating the qualitative characteristics and the objectives of financial reporting does not lead to the selection of a particular base (refer to BC29). HoTARAC considers the introduction of a separate measurement model for "operational assets" to be unnecessary and needlessly complex.

It is also noted that IFRS 13 adopts a different solution to the problem of an ideal basis versus what is most relevant in specific circumstances. That is, instead of alternative bases of measurement (as suggested by the IPSASB), IFRS 13 outlines a hierarchy of data inputs to valuation techniques. In HoTARAC's view, this represents a more robust approach to select an appropriate valuation technique compared to deprival value.

The IPSASB discussion treats the fair value model and the deprival model as two separate models, with one used to estimate market value and the other used to measure operational assets. However, HoTARAC questions this view. Where current market prices can be observed for the same or a similar asset, market selling price (exit price under IFRS 13) and market buying price (entry price to replace service potential under a deprival value model) should not be materially different. Where current market prices cannot be observed, the practice is often that market buying price is allowed to be used as a surrogate for market selling price.

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### **Specific Matter for Comment 4**

*Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

HoTARAC believes that the discussion about measurement bases for liabilities raises similar issues to those mentioned in Specific Matter for Comment 2 in regard to assets. That is, in particular, the measurement bases identified are not mutually exclusive and mix measurement bases with valuation techniques. HoTARAC prefers the distinction made in IFRS 13 between the fair value basis and the valuation techniques to estimate fair value.

In the context of historical cost and assumption price, paragraphs 5.3, 5.4 and 5.14 refer to the value of an amount received when the liability is first recognised. HoTARAC is of the view that the receipt of cash in exchange for assuming a liability is rare in not-for-profit public sector entities, and HoTARAC therefore questions the appropriateness of such references.

The first sentence of paragraph 5.16 states that recognising performance obligation liabilities at an assumption price results in no surplus being reported at the time of the obligation being taken on. However, in HoTARAC's view, the choice of measurement method should only make a difference to whether or not a surplus would result if this is due to a difference between the amount of a cash receipt and the measurement of the performance obligation liability using a different amount. Aside from that situation, what drives whether or not a surplus would result at the outset depends on whether or not a performance obligation liability is initially recognised - which relates to the timing of revenue recognition. Therefore, HoTARAC recommends that paragraph 5.16 be clarified accordingly.

Regarding the cost of fulfilment, HoTARAC questions the statement in paragraph 5.22. HoTARAC considers that the carrying amount should reflect the value of the resources that will be used in fulfilling the obligation.

**Denise Silva Ferreira Juvenal**

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**Accountant**

**Commentary individual**

**Rio de Janeiro / Brazil**

**Sir**

**Chair and Steering Committee**

**IPASB Technical Director - [stepheniefox@ipsasb.org](mailto:stepheniefox@ipsasb.org)**

**International Public Sector Accounting Standards Board Conceptual Framework  
(CF–ED3)**

**International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario M5V 3H2 CANADA**

**30 April 2013**

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

I'm Denise Juvenal this is pleased to have the opportunity to comment on this consultation. This is my individual commentary for IFAC-IPSAS for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements.

**Guide for Respondents**

The IPSASB welcomes comments on all the proposals in CF–ED3. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to CF–ED3.

**Specific Matters for Comment**

The IPSASB would particularly value comments on the Specific Matters for Comment below.

**Specific Matter for Comment 1**

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial

**reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.**

Yes. I think that measurement basis should be clear with objectives of financial reporting. The public sector has considerations specified in laws and jurisdictions, I understand that can be complex to make this integration for measurement objective in this moment.

#### **Specific Matter for Comment 2**

**Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?**

Yes, I agree with the current value measurement bases for assets that have been identified in Section 3.

#### **Specific Matters for Comment 3**

**Do you agree with the approaches proposed in Section 4 for application of:**

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and**
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.**

Yes. I agree with the approaches proposed in Section 4.

#### **Specific Matter for Comment 4**

**Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?**

Yes, I agree with the proposed measurement bases for liabilities in Section 5.

Thank you for opportunity for comments this proposal, if you have questions don't hesitate contact to me, [rio1042370@terra.com.br](mailto:rio1042370@terra.com.br).

Yours,

Denise Silva Ferreira Juvenal

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May 3, 2013

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

Dear Ms. Fox:

**Re: Conceptual Framework Exposure Draft 3 – Measurement of Assets and Liabilities in Financial Statements**

Thank you for the opportunity to comment on IPSASB's Exposure Draft #3 on Measurement of Assets and Liabilities in Financial Statements.

The Province of Ontario believes that historical cost should continue to be the primary basis for measuring assets and liabilities and that accounting standards should reflect a limited number of situations where other measurement bases are deemed to be appropriate. In Canada, the initial measurement basis has primarily been historical cost with limited exceptions such as investments which are accounted for on an equity basis, and where subsequent re-measurement within the cost measurement basis is generally restricted to:

- a) amortization to allocate cost to appropriate accounting periods beyond one year;
- b) valuation allowances used to reflect a reduction in the net recoverable value of an asset;
- c) estimation of the amount of a liability at the reporting date using present value techniques (e.g. employee future benefits or post-closure mine landfill costs) and subsequent annual re-assessment thereof;
- d) monetary assets and liabilities denominated in foreign currency measured at the exchange rate at each reporting date (re-estimation of the local currency equivalent), or
- e) recognition of permanent impairments in asset values (with no subsequent reversal).

Ms. Fox  
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Canada's public sector accounting standards based primarily on the historical cost basis, except as noted above, have provided a great deal of stability and reliability in public sector financial reporting, both in terms of fiscal plans as well as actual results reporting and comparison against budget. The current model supports transparency and accountability in public sector reporting by allowing for the public and legislatures to hold governments accountable for financial decisions and performance against a historical cost based budget.

During PSAB's project on financial instruments, governments raised concerns with the proposed introduction of unrealized gains and losses into government reporting, specifically as related to the integrity of the statement of operations. Governments did not believe it would be useful to decision-makers or the public for unrealized gains and losses resulting from marking financial instruments at their fair market value to cloud the annual surplus/deficit result. Unrealized gains and losses were seen as potentially confusing to users, not clearly reflecting governments' activities and intent related to debt management or the results of government decision-making, thus reducing the transparency and accountability of government financial reporting. From a user's perspective, an unrealized gain/loss as at the reporting date may be interpreted as meaning that governments would have to levy taxes to fund an unrealized loss, or alternatively, an unrealized gain might be seen as being available for program spending.

In regard to debt management strategies, governments do not take speculative positions nor do they seek holding gains or losses, although these sometimes occur. In Canada, the proposal of mark-to-market accounting for financial instruments has been strongly opposed by the senior government financial statement preparer community because of its proposal to measure derivatives and portfolio investments traded in an active market at fair value. Recently, PSAB has arrived at a compromise which helps to preserve the integrity of the statement of operations, but introduces a separate statement of remeasurement gains and losses which will introduce additional complexity and confusion into government reporting. In addition, the new standard which does not reflect hedge accounting will have a direct impact on Ontario's annual surplus/deficit results and net debt levels. There is a risk that the new standard may impact government borrowing policies and, in an effort to mitigate potential volatility to the statement of operations, would likely result in additional interest expense in our borrowing program. These additional expenses would impede the government's ability to meet Balanced Budget legislation obligations.

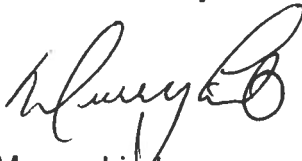
Ms. Fox  
Page 3

Using a cost based measurement model is prudent, conservative and consistent with the nature of government as defined and described by the Joint PSAB/Deputy Minister of Finance Joint Working Group. Under this measurement model, if permanent impairment occurs, any loss in value would be determined and recognized in the Statement of Operations in the year it occurs or is identified.

A cost based measurement model for financial instruments held to maturity will also be more easily understood by the primary users of government financial statements. From the perspective of senior Canadian governments, in an effort to best serve transparency and accountability objectives, information regarding the market value of, and risks related to, items included in the Statement of Financial Position would be best provided through the Notes to the Financial Statements on the basis that such notes are integral to the financial statements and provide significant information to users.

Specific matter responses are included in the attachment to this letter. Thank you again for the opportunity to comment on this Exposure Draft.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Murray Lindo', with a stylized flourish at the end.

Murray Lindo  
ADM and Provincial Controller  
Office of the Provincial Controller Division

Attachment

c. Greg Orencsak, Associate Deputy Minister

## ATTACHMENT

### **Specific Matters for Comment 1**

**Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think there should be a measurement objective please indicate what this measurement objective should be and give your reasons.**

We believe that the primary basis of measurement should be historical cost and the standards should provide appropriate criteria to gauge when alternative bases of measurement might be appropriate.

### **Specific Matter for Comment 2**

**Do you agree with the current value measurement bases for assets that have been identified in section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?**

We do not believe any current value measurement base should be the primary base for government financial statements. However, we do agree that other measurement bases should be available for use in those situations where historical cost is not considered appropriate in depicting a useful statement of annual surplus deficit. There is a need to acknowledge the significance of public sector accounting standards to fiscal accountability frameworks and therefore potential impacts on fiscal policy decisions. The basis of reporting should reflect the economic substance of government's activities and serve the public interest. There is a need to consider potential negative consequences in determining the appropriate approach.

### **Specific Matter for Comment 3**

**Do you agree with the approaches proposed in section 4 for application of:**

- a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and**
- b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not, please give your reasons.**

Ontario believes historical cost should be the primary basis of measurement for public sector financial reports. However, there are limited circumstances where deviation from historical cost (to fair market values or deprival values) may be appropriate. For example, if an asset is no longer in service and needs to be disposed of, an appropriate framework to achieve an exit value would be useful guidance.



**Specific Matter for Comment 4**

**Do you agree with the proposed measurement bases for liabilities in section 5? If not, please indicate which additional measurement bases should be included or which measurement basis should not be included in the Framework?**

We agree with the proposed measurement bases for liabilities. In Canada, the measurement bases for liabilities have always been conservative, with an objective of providing a fair presentation of the nature and extent of an entity's obligations to other parties.

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

Dear Stephanie,

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

The Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA) is pleased to provide a response to the International Public Sector Accounting Standards Board (IPSASB) request for comments on its Exposure Draft (ED). We are wholly supportive of the IPSASB's objectives to enhance the quality and consistency of financial reporting of Public Sector Entities (PSEs) and improve the transparency and accountability of government reporting.

**General Comment**

We consider the most significant issue that Government and PSEs face is legacy, with the aim of improving legacy over the long-term.

Our comments on the specific questions asked by the IPSASB are as follows:

**Specific Matters for Comment 1**

**Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.**

We agree with the alternative view of Mr. Ken Warren and we are very comfortable with his suggestion. We consider that there should be a measurement objective for a number of reasons:

- Government accounting concerns legacy and because government accounting is intergenerational there needs to be a process that future generations will agree was appropriately applied in deciding how that legacy is measured. A measurement objective will help with that agreement.
- Typically government activities involve consumption of assets; consumption of resources and consumption of taxes. Reporting tends to focus on how much has been used and what has been delivered rather than how much is left, what has been created and what can be delivered.
- Historically many of the alternative measurement bases have created their own problems. Historic cost tends to undervalue the balance sheet and overstate profits. Fair value overcomes much of this problem but then measuring fair value when there is a non-active market becomes subjective and valuations volatile. Depreciated replacement cost requires a current value.

Ultimately of course for costs and measurement quality reasons one of the current accounting measures is always going to need to be applied. We consider a measurement objective will help inform the decision rather than it possibly being perceived as there being a choice.

**Specific matter for Comment 2**

**Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement basis should not be included in the framework?**

We agree that the measurement bases and models identified are all sensible bases and models to use in application. However because we believe that there should be a measurement objective that informs how legacy is measured we do not believe that particular measurement bases and models should be a part of the framework. Rather we consider that they should sit as examples in an Appendix to the framework.

**Specific matter for Comment 3**

**Do you agree with the approaches proposed in Section 4 for the application of:**

- a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons: and**
- b) The deprival model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.**

Notwithstanding our responses in comments 1 and 2 we agree the approaches are appropriate.

**Specific matter from Comment 4**

**Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework.**

Notwithstanding our responses in comments 1 and 2 we agree the approaches are appropriate. We tend to favour "Cost of Release" as the default measurement basis except, when as noted in the ED it is not likely that release in the envisaged manner is an option open to the entity.

Yours faithfully

Steven Ralls BA, FCA  
Head of Accounting and Auditing Standards Desk  
Financial Audit and Examination, Abu Dhabi Accountability Authority



Paris, le - 1 MARS 2013

**DIRECTION GÉNÉRALE DES FINANCES PUBLIQUES**

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Référence : 2013/02/ 1476

Ms Stephenie FOX

Technical director of IASB

77 Wellington Street, 4th floor

Toronto, Ontario M5V 3H2 CANADA

**Object:** Response to the Conceptual Framework Exposure Draft 3: Measurement of assets and liabilities in financial statements

I am writing on behalf of "Direction Générale des Finances Publiques" (DGFIP) to express our views on the mentioned above Conceptual Framework Exposure Draft 3, "CF-ED3" on Measurement of assets and liabilities in financial statements.

LE CHEF DE SERVICE

David LITVAN

## 1. GENERAL COMMENTS

The “Direction générale des finances publiques” (The French Directorate of Public Finances), “DGFIP”, welcomes the issue of conceptual Framework Exposure draft 3 “CF-ED3” that is a pillar of the setting of public sector accounting standards.

Indeed, Conceptual Framework defines the structuring principles of public sector accounting standards. Consequently, it encompasses four parts related respectively to:

- Objectives and users of financial statements,
- Elements and recognition in financial statements,
- Measurement of assets and liabilities in financial statements,
- Presentation in General Purpose Financial Reports.

Financial statements, in order to be useful for users’ decision-making, must provide a relevant and faithful representation of the economic phenomena. Citizens and their representative bodies, Parliament, taxpayers and public services recipients are the primary users of financial statements because they are the primary recipients of public services and the primary resource providers. The needs of the primary users are to ensure the durability of public services from which they benefit and the ongoing and future costs associated.

Investors and lenders are also users of financial statements. Their primary need is to assess the ability of public entities to honour their debts.

***NB: In the rest of our response, the terms “users of financial statements” or “users” mean not only citizens, tax-payers and public services users but also lenders and investors.***

Hence, information provided by financial statements is essential for the understanding and the decision-making of their users.

The measurement methods must fulfil these multiple objectives.

Assets used to deliver public services can be similar to those used in the private sector. That is why similar measurement rules have to apply for these kind of assets.

Nevertheless, many assets used to deliver public services are specialised.

The “specialised” nature of that public service assets arises from their specific characteristics related to:

- the existence of service potential for the benefits of the public, and
- the lack of market in most cases due to the specific nature of the service these specialised assets provide.

The measurement methods applied in the financial statements of public entities must reflect these characteristics of specialised public service assets. These characteristics arise mainly from the existence of service potential rather than any existing commercial value. These methods must provide information to the users of financial statements about the current costs of public services and the future costs related to the continuation of service potential related.

This is the reason why, the DGFIP favours the historical cost method at the initial recognition of assets (whatever they are specialised or not) when the cost is known or when it is possible to reconstitute it. Otherwise, the following alternative measurement methods may be used:

- market value or fair value when there is quite an active market,
- symbolic or fixed amount when there is no active market or if the service potential can't be reliably measured.

In French central government financial statements, these alternative methods apply mainly to:

- heritage and cultural assets for which service potential is difficult to assess and are therefore measured at symbolic amount when the historical cost is unknown,
- Radio frequencies attributed to telecommunication operators by central government which are estimated on the discounted cash flows approach.

Nevertheless, the measurement method of an asset after its initial recognition must take into account its characteristics and in particular its nature, specialised or not. The depreciated replacement cost method is often used to measure specialised infrastructures - such as roads, motorways or prisons – which are, by nature, intended to be replaced.

Therefore, the different measurement methods proposed by the CF-ED3 are measurement methods used to assess assets recorded in the French public entities balance sheets, except the symbolic or fixed amount approaches, which is not identified in the CF-ED3.

Besides, the CF-ED3 addresses only the measurement of purchased assets but does not address assets internally generated, or assets acquired by exchange or transferred between public entities. This ED should be completed with these aspects. In France, underway reflections should lead to the recognition of the asset in the transfer recipient entity accounts at the carrying amount recorded in the transferring entity accounts. Indeed, in the public sector, transfers of assets are related to the transfer of the associated public service mission. These transfers result rather from operational choices than from the willing or ability of the public entity to get profit from the transfers of assets.

Concerning **liabilities** and in particular the debt, the DGFIP considers that they must be measured at historical cost in order not to introduce volatility or procyclic phenomena in financial statements.

Nevertheless, the notes may disclose information about the market values of some liabilities. Hence, in France, the market value of derivatives is not recognised in balance sheet but disclosed in the notes.

## 2. COMMENTS ON THE SPECIFIC MATTERS FOR COMMENT

### • Specific Matter for Comment 1

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

We consider that measurement methods have to meet:

- the financial statements objectives, and
- both the characteristics of the measured item and in particular its nature (specialised or not), and the nature of the expected future economic benefits derived from its use (service potential or cash flows).

The measurement of conceded assets serves as a case in point. Indeed, the use of these assets generates the both natures of economic benefits:

- Service potential to the public entity, and
- Cash flows (operators get royalties from the users of conceded asset) of the operator.

Therefore, whereas the measurement method is identical at initial recognition of the asset (cost), there are discrepancies in valuation methods at the reporting date. Hence, at the reporting date:

- in the Central government financial statements, after the initial recognition of the asset at its cost, conceded infrastructure for public services such as roads or prisons are measured at replacement cost <sup>1</sup>. That cost corresponds to the estimated cost to replace the asset by a similar asset that would offer identical service potential and then at the present value;

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<sup>1</sup> In central government accounts, no depreciation is recognised on these infrastructures as, under the provision of the service concession arrangements, the operator commits itself to maintain the infrastructure service potential at the end of the concession identical to its originally level and these costs are assumed by the operator and not by the grantor.



- In the operator financial statements, when applying IFRS, conceded intangible assets (in accordance with IFRIC 12), initially recognised at cost, are still measured at cost at the reporting date except if there is an indication of an impairment loss. Entities under IFRS apply the IAS 36 provisions and compare, at the reporting date, the carrying amount and the recoverable amount if there is an indication of impairment loss. The recoverable value is defined as the higher of its fair value less costs of disposal and its value in use. Value in use corresponds to the present value of the future cash flows derived from the asset.

- **Specific Matter for Comment 2**

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

As indicated in the general comments, the DGFIP favours the initial recognition of assets and liabilities at cost when the cost is known or if it is possible to reconstitute it. Otherwise, alternative measurement methods should be used, such as:

- Market value when there is a sufficient active market,
- symbolic or fixed amount when there is no active market or if the service potential can't be reliably measured.

Hence, cultural and heritage assets for which service potential is difficult to assess are measured at symbolic amount when the cost is unknown or can't be reconstituted.

Nevertheless, at the closing date, the measurement methods of assets and liabilities depend on their characteristics - in particular, their nature (specialised or not) - and, concerning assets, the nature of the economic benefits related.

Hence, specialised assets expected to be replaced are measured at depreciated replacement cost.

- **Specific Matter for Comment 3**

*Do you agree with the approaches proposed in Section 4 for application of:*

*(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and*

*(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.*

As indicated in the general comments and in our response to the first question, fair value measurement is an alternative method that applies to non specialised assets, clearly identified, which provide economic benefits in the form of cash flows rather than service potential and for which an active market exists. These assets are not, by nature, specialised assets of the public sector and are similar to those used by the private sector.

Besides, as indicated in our precedent response to the consultation paper related to conceptual framework, we consider that the deprival value approach is not relevant because of the complexity of its implementation and because its benefits don't justify the costs incurred.

- **Specific Matter for Comment 4**

*Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

As for assets, the DGFIP favours the recognition of liabilities at cost in order not to introduce volatile or procyclic phenomena in financial statements. This is the case for financial liabilities and in particular for the debt.

Nevertheless, the notes disclose information about market value of derivatives, that are not measured at market value in the central government balance sheet.

Concerning provisions, their amounts correspond to the best estimate of the outflow of resources required to settle the obligation. The expenses to be considered are those which are directly incurred to settle the obligation.

## FRENCH VERSION

La Direction générale des finances publiques salue la publication de cet exposé sondage, ci-après l'ED-CF3, structurant pour l'élaboration des normes comptables applicables au secteur public.

En effet, le cadre conceptuel définit les principes fondateurs des normes comptables applicables à l'élaboration des états financiers des entités publiques. A ce titre, il comprend quatre volets qui traitent respectivement :

- des objectifs et des utilisateurs des états financiers,
- des définitions et des critères de reconnaissance des éléments des états financiers,
- des méthodes d'évaluation de ces éléments dans les états financiers,
- de la présentation de l'information dans les états financiers.

Les états financiers, afin d'être utiles à la prise de décision de leurs utilisateurs, doivent donner une représentation fidèle et sincère des phénomènes économiques. Les citoyens et son représentant, le Parlement, le contribuable et l'utilisateur sont les principaux utilisateurs des états financiers car ils sont les principaux bénéficiaires des services publics mais également leur principale source de financement. Leur besoin est de s'assurer de la pérennité des services publics dont ils bénéficient et des coûts associés actuels et futurs.

Les investisseurs et les prêteurs sont également des utilisateurs des états financiers. Leur principale préoccupation est d'évaluer la capacité des entités publiques à honorer leurs dettes.

***NB : Dans la suite de notre réponse, les utilisateurs des états financiers correspondront à la fois au contribuable, au citoyen et à l'utilisateur mais également aux investisseurs et prêteurs.***

Ainsi, les informations véhiculées par les états financiers sont essentielles pour la compréhension et la prise de décision des utilisateurs des états financiers.

Les méthodes de valorisation des actifs et passifs doivent répondre à ces objectifs multiples.

Les actifs utilisés pour délivrer le service public peuvent être similaires à ceux utilisés dans le secteur privé. Pour ces derniers, les mêmes méthodes d'évaluation doivent s'appliquer.

Néanmoins, beaucoup d'actifs utilisés pour fournir un service public sont spécifiques. La nature « spécifique » de ces actifs publics relève de leurs caractéristiques propres liées :

- à leur potentiel de service pour le public, et
- à l'absence de marché, dans la majorité des cas, du fait de la nature spécifique des services fournis associés.

Les méthodes de valorisation des actifs retenues dans les comptes des entités publiques doivent refléter leurs caractéristiques qui relèvent principalement de l'existence d'un potentiel de service et non d'une valeur marchande. Elles doivent également traduire le coût actuel des actifs utilisés pour délivrer les services publics mais également les coûts futurs liés au maintien du potentiel de service associé.

C'est la raison pour laquelle, nous privilégions la méthode du coût historique lors de la comptabilisation initiale des actifs (spécifiques ou non) lorsque celui-ci est connu ou qu'il est possible de le reconstituer. Sinon, les méthodes de valorisation alternatives suivantes sont envisageables :

- la valeur de marché ou juste valeur, lorsqu'il existe un marché suffisamment actif,
- la valeur symbolique ou forfaitaire lorsqu'il n'existe pas de marché actif ou que le potentiel de service n'est pas mesurable.

S'agissant des comptes du secteur public en France, ces méthodes alternatives sont appliquées, notamment :

- aux actifs historiques et culturels pour lesquels le potentiel de service est difficilement évaluable et qui sont en conséquence valorisés à l'euro symbolique lorsque le coût d'acquisition n'est pas connu,
- aux fréquences hertziennes attribuées à des opérateurs de télécommunication par l'Etat qui sont évaluées sur la base de l'approche des flux de trésorerie actualisés.

En revanche, la méthode de valorisation de l'actif postérieurement à sa comptabilisation initiale doit tenir compte de ses caractéristiques et notamment de sa nature spécifique ou non. La méthode du coût de remplacement déprécié est souvent utilisée pour valoriser les infrastructures spécialisées - comme les routes, autoroutes ou les prisons - qui, par nature, sont destinées à être renouvelées.

En conséquence, les différentes méthodes de valorisation proposées dans l'ED-CF3 se retrouvent dans la valorisation des actifs figurant au bilan des entités publiques en France excepté la méthode forfaitaire ou l'évaluation à l'euro symbolique, qui n'est pas identifiée dans l'ED-CF3.

Par ailleurs, l'ED-CF3 traite uniquement de l'évaluation des actifs acquis mais ne traite pas des actifs produits, échangés ou transférés entre entités publiques. Il conviendrait que ce projet soit complété également de ces sujets. Les réflexions actuellement en cours en France devraient aboutir, chez le bénéficiaire du transfert, à une valorisation des transferts d'actifs entre entités publiques, à la valeur comptable de l'actif figurant dans les comptes de l'entité transférante. En effet, dans le secteur public, les transferts d'actifs vont de pair avec le transfert de la mission/politique publique associée. Ils relèvent uniquement du choix opérationnel et non de la volonté ou de la capacité de l'entité publique de faire du profit.

S'agissant **des passifs** et notamment de la dette financière, la DGFIP considère qu'ils doivent être évalués selon la méthode du coût historique pour ne pas introduire de volatilité ou de procyclicité dans les états financiers.

En revanche, l'annexe des comptes peut comporter des informations sur la valeur de marché de certains passifs. Ainsi, en France, les instruments dérivés ne sont pas valorisés dans le bilan mais l'information sur leur valeur de marché est fournie en annexe.

## Q 1 /

Nous considérons que les méthodes de valorisation doivent répondre :

- aux objectifs des états financiers,
- aux caractéristiques de l'élément évalué et notamment de sa nature spécifique ou non, mais également de la nature des avantages économiques futurs attendus issus de son utilisation (potentiel de service ou flux de trésorerie).

La valorisation des actifs remis en concession illustre notre propos. En effet, l'utilisation de ces actifs génère concomitamment les deux natures d'avantages économiques futurs :

- un potentiel de service du point de vue de l'entité publique, et
- des flux de trésorerie (redevances sur les usagers du service public) du point de vue du concessionnaire.

De ce fait, leurs méthodes de valorisation diffèrent à la clôture dans les comptes du concédant et du concessionnaire alors qu'elles sont similaires lors de leur comptabilisation initiale au coût. Ainsi, à la date de clôture :

- dans les comptes de l'Etat, postérieurement à la valorisation initiale au coût, les infrastructures routières ou les prisons sont évaluées au coût de remplacement<sup>2</sup>, qui correspond au coût pour remplacer l'actif par un actif similaire qui offrirait le même potentiel de service et donc à la valeur actuelle,
- dans les comptes du concessionnaire, lorsqu'il applique les IFRS, les actifs incorporels concédés (en application d'IFRIC 12), initialement comptabilisés au coût, ne sont pas évalués en valeur actuelle mais font l'objet de tests de dépréciation. Les sociétés appliquant les IFRS suivent les dispositions d'IAS 36 et comparent, à la clôture, la valeur comptable et la valeur recouvrable lorsqu'il existe un indice de perte de valeur. La valeur recouvrable est définie comme la valeur la plus élevée entre sa juste valeur diminuée des coûts de la vente et sa valeur d'utilité. Cette dernière est déterminée par référence aux flux futurs de trésorerie nets actualisés.

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<sup>2</sup> Dans les comptes de l'État, il n'est pas constaté de dépréciation sur ces actifs au titre des coûts estimés de remise en état, compte tenu de l'obligation pour le concessionnaire de maintenir à ses frais le potentiel de service de l'actif à son niveau d'origine.

**Q 2 /**

Comme indiqué dans notre commentaire général, nous privilégions la valorisation au coût lors de la comptabilisation initiale des éléments d'actifs et de passifs lorsque celui-ci est connu ou reconstituable. Sinon, des méthodes de valorisation alternatives doivent être envisagées, comme :

- la valeur de marché, lorsqu'il existe un marché suffisamment actif, et
- la valeur symbolique ou forfaitaire lorsqu'il n'existe pas de marché actif ou que le potentiel de service n'est pas mesurable de façon fiable.

Ainsi, les actifs historiques et culturels pour lesquels le potentiel de service est difficilement évaluable sont valorisés à l'euro symbolique lorsque le coût d'acquisition n'est pas connu ou non reconstituable.

En revanche, les méthodes de valorisation des actifs et passifs en date de clôture sont dépendantes de leur caractéristiques et notamment de leur nature spécifique ou non ainsi que de la nature des avantages économiques associés s'agissant des actifs.

Ainsi, les actifs spécifiques destinés à être remplacés devront être évalués au coût de remplacement déprécié.

**Q 3 /**

Comme indiqué dans notre commentaire général et rappelé dans la question 1, l'évaluation en juste valeur demeure une méthode d'évaluation alternative qui s'applique pour l'évaluation d'actifs, non spécifiques, clairement identifiés qui procurent des avantages économiques sous forme de flux de trésorerie et non de potentiel de service et pour lesquels il existe un marché. Ces actifs ne sont pas, par nature, spécifiques du secteur public et sont similaires aux actifs utilisés dans le secteur privé.

Comme indiqué dans notre précédente réponse à l'exposé sondage, nous considérons que l'approche en « deprivat value » n'est pas appropriée du fait de la complexité de sa mise en œuvre et du fait que les bénéfices retirés ne justifient pas les coûts encourus.

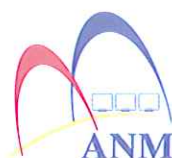
**Q 4 /**

A l'instar des actifs, nous privilégions une évaluation initiale des passifs au coût afin ne pas introduire de volatilité ou de procyclicité dans les états financiers. C'est le cas des passifs financiers et notamment de la dette financière.

Cependant, s'agissant des instruments dérivés qui ne sont pas valorisés dans le bilan de l'Etat, l'annexe des comptes fournit des éléments complémentaires relatifs à leur évaluation en valeur de marché.

S'agissant des provisions pour risque et charge, leur montant correspond à la meilleure estimation de la sortie de ressources nécessaire à l'extinction de l'obligation envers un tiers. Les charges à considérer sont celles qui concourent directement à l'extinction de cette obligation.





MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

6 May 2013

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

Dear Stephanie

**CONCEPTUAL EXPOSURE DRAFT 3 - CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS**

The Accountant General Office of Malaysia ("AG Office") and the Malaysian Institute of Accountants ("MIA") are pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

**General Comments:**

We support the IPSASB's effort in developing a conceptual framework for public sector entities. We are of the view that the conceptual framework should be aligned with the International Accounting Standards Board ("IASB") conceptual framework except for areas that are specific to public sector. The conceptual framework will then support the development of relevant International Public Sector Accounting Standards ("IPSASs") and Recommended Practice Guidelines ("RPGs"). Such approach will assist the users' understanding of general purpose financial reports (GPFs) who read financial reports across public and private sectors.

Generally, in many parts of the world and specifically in Malaysia, both preparers and auditors of the GPFs are converse with the International Financial Reporting Standards ("IFRS"). The move to accrual accounting by the Government of Malaysia in 2015 is likely to result in the migration of accountants from private to public sector as they are cognisant with IFRS. The alignment of IPSAS and IFRS would ease mobility of accountants between the two sectors.

The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. Similar to the above, the alignment of IPSAS and IFRS would ease the consolidation of GBEs when preparing the consolidated financial statements of public sector entities.

### **Specific Comments:**

We agree on the Specific Matters for Comments raised in the Exposure Draft other than Specific Matter for Comment 2 and 3(b) and 4 as detailed below.

#### **Specific Matter for Comment 2**

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

#### **Specific Matter for Comment 4**

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

#### **Fair value**

In IFRS, fair value is one of the measurement bases of assets and liabilities. We have provided general comment on the alignment of IPSAS and IFRS above. The Exposure Draft discusses the various measurement bases of assets and liabilities. When IPSASB eventually decides the measurement bases, the measurement requirements of assets or liabilities that are currently being measured at 'fair value' should be changed to reflect the suggested measurement bases. Some of the examples are as follows:

- (a) Paragraph 9 of IPSAS 12 *Inventories* states that where inventories are acquired through a non-exchange transaction, their cost shall be measured at their **fair value** as at the date of acquisition.
- (b) Paragraph 27 of IPSAS 17 *Property, Plant and Equipment* states that where an asset is acquired through a non-exchange transaction, its cost shall be measured at its **fair value** as at the date of acquisition.
- (c) Paragraph 44 of IPSAS 17 states that after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its **fair value** at the date of the revaluation, less any subsequent accumulated impairment losses.
- (d) Paragraph 42 of IPSAS 16 *Investment Property* states that after initial recognition, an entity that chooses the fair value model shall measure all of its investment property at

**fair value**, except in the cases described in paragraph 62.

- (e) Paragraph 16 of IPSAS 27 *Agriculture* states that a biological asset shall be measured on initial recognition and at each reporting date at its **fair value** less costs to sell, except for the case described in paragraph 34 where the fair value cannot be measured reliably.
- (f) Paragraph 45 of IPSAS 29 *Financial Instruments: Recognition and Measurement* states that when a financial asset or financial liability is recognized initially, an entity shall measure it at its **fair value** plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

### **Net realizable value**

Paragraph 9 of IPSAS 12 requires all inventories to be measured at the lower of cost and **net realizable value**, except where paragraph 16 or paragraph 17 applies. Net realizable value is defined in paragraph 9 of IPSAS 12 as the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. We believe net realizable value does not fall under any of the current measurement bases discussed in the Exposure Draft. Accordingly, we suggest the IPSASB to include net realizable value as a measurement base of assets.

### **Net selling price**

Paragraph 3.35 of the Exposure Draft defines net selling price as the amount that the entity can obtain from sale of the asset at the reporting date, after deducting the costs of sale. It appears that such definition is similar to 'gross profit'. We are of the view that net selling price should be defined as 'the amount that the entity can obtain from sale of the asset at the reporting date, after deducting costs to sale'.

### **Specific Matter for Comment 3(b)**

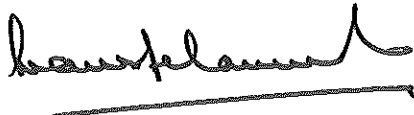
Do you agree with the approaches proposed in Section 4 for application of:

- (b) The deprival value model to select to confirm the use of a current measurement basis for operational assets. If not please give your reasons.

Recoverable amount is defined in paragraph 4.11 of the Exposure Draft as the greater of value in use and net selling price. However, paragraph 31 of IPSAS 26 *Impairment of Cash-Generating Assets* defines recoverable amount as the higher of an asset's fair value less costs to sell and its value in use. It appears that there is inconsistency of definition of recoverable amount between the Exposure Draft and IPSAS 26. We also noted that recoverable service

amount is used in IPSAS 21 *Impairment of Non-Cash-Generating Assets*. We suggest the IPSASB to consider such term when reviewing the definition of recoverable amount.

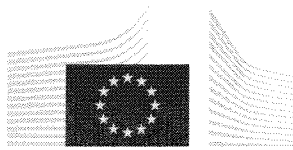
Yours sincerely,



**DATUK WAN SELAMAH WAN SULAIMAN**  
Accountant General of Malaysia  
ACCOUNTANT GENERAL'S DEPARTMENT  
OF MALAYSIA



**DATUK MOHD NASIR AHMAD**  
President  
MALAYSIAN INSTITUTE OF ACCOUNTANTS



EUROPEAN COMMISSION  
Budget

The Accounting Officer of the Commission

Brussels,  
BUDG.DGA.C02/MK/mt

**NOTE FOR THE ATTENTION OF PROF DR ANDREAS BERGMANN,  
CHAIRMAN OF THE IPSAS BOARD**

**Subject: Comments on the Conceptual Framework Exposure Drafts 3:  
Conceptual Framework for General Purpose Financial Reporting by  
Public Sector Entities: Measurement of assets and liabilities in  
financial statements**

Thank you for giving me the opportunity to comment on the Exposure Draft 3 of the Conceptual Framework project. The following comments are made in my capacity as Accounting Officer of the European Commission responsible for, amongst other tasks, the preparation of the annual consolidated accounts of the European Union which comprise more than 50 European Agencies, Institutions and other Bodies with an annual budget of more than EUR 140 billion.

As a general comment, I would like to congratulate the IPSAS Board for issuing this high quality exposure draft and for the significant progress made on the work on the Conceptual Framework. Please find my comments on specific matters of this exposure draft in the Annex to this note.

I look forward to our continued co-operation in the area of public sector accounting and remain at your disposal for any question you may have on the comments.



Manfred Kraff

Annex: Comments on specific matters

Copy: S. Fox, J. Stanford, IFAC  
F. Lequiller, ESTAT D  
R. Aldea Busquets, BUDG C; M. Koehler, BUDG C.2

## **Annex: Comments on specific matters**

### **Specific Matter for Comment 1:**

*Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.*

### **Comment:**

We totally agree with the view that a measurement basis for a specific element should be selected on the basis how it meets the objectives of financial reporting taking into account the information needs (accountability and/or decision making) of users of the financial statements to be issued. We welcome that the Framework does not require specific measurement bases but provides relevant factors for the selection of a measurement base in different circumstances. This enables preparers to select the appropriate measurement bases that meet the objectives of financial reporting. We do not think that a measurement objective necessarily needs to be included in the framework as this can be deduced from the discussion in the Framework.

### **Specific Matter for Comment 2:**

*Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

### **Comment:**

We agree with the current value measurement bases for assets in Section 3. We note that the Framework suggests in different paragraphs directly (paragraph 2.6, 2.7) or indirectly (paragraph 3.27) complementary disclosures to a measurement base chosen. We are of the opinion that the Framework is not the right place to suggest detailed requirements (i.e. disclosures) as it should remain a principle based Framework. The issue of additional disclosures should be addressed on standards level.

### **Specific Matter for Comment 3:**

*Do you agree with the approaches proposed in Section 4 for application of:*

*a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and*

*b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not, please give your reasons.*

**Comment:**

We agree with the approaches proposed for application of both the fair value measurement model and the deprival value model. We welcome that the Framework allows other approaches to select a measurement base such as cost/benefits considerations. We take note that the Framework does not require specific methodologies to be applied for a particular measurement basis and that it allows using other methodologies that achieve "similar" results. In that context one can conclude that methodologies to be applied for a particular measurement basis discussed in the Framework have merely exemplarily character. In summary the Framework provides with that statement preparer of financial statements a certain degree of flexibility so as to take into account the specific business environment of the reporting entity.

In that context one could argue that the Framework might not be the right place for the discussion of the two approaches and an inclusion on standards level might be more appropriate. The reason for this is that they refer to specific cases as mentioned in paragraph 4.4.

***Specific Matter for Comment 4:***

*Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?*

**Comment:**

We agree with the proposed measurement bases for liabilities in Section 5.



9 May 2013

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

Email: [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)

Dear Stephenie

**Conceptual Framework Exposure Draft 3 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements**

Thank you for the opportunity to comment on the above. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the proposals and our comments follow. CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

Our preferred approach is for an international reporting framework comprised of a single set of concepts designed for application to all sectors. The Memorandum of Understanding between the International Accounting Standards Board and the International Federation of Accountants notes the importance of involving the International Accounting Standards Board (IASB) technical staff in the IPSASB's development of a conceptual framework for public sector entities (Framework). We are pleased that this is taking place and we hope that it will continue with an increasing focus now that the IASB are progressing with their conceptual framework project. We commend the IPSASB on publishing the first four chapters of Framework. We also agree with the decision of the IPSASB to defer approval and publication of the Preface to the Framework until the Framework is being finalised. This will allow the linkages with the concepts in the Framework to be made more explicit. Furthermore, we believe the Framework would benefit from an IPSASB review of all the published chapters as part of the finalisation process. As well as enabling the linkage of concepts to be made more explicit a review of this type enables the Framework to be subjected to a contemporary holistic evaluation before its finalisation.

We agree with the alternative view of Mr Ken Warren in the Basis to Conclusions to this Exposure Draft (ED). We believe the role of the Framework should be both aspirational and practical. First, the Framework should be aspirational. Therefore, we consider that the Framework should include a measurement objective and articulate the ideal capital maintenance concept and measurement base for use in the public sector. A Framework that does not articulate a measurement objective and then connect that objective to the objectives of financial reporting will limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time.

Representatives of the Australian Accounting Profession



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Institute of  
Chartered Accountants  
Australia

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Second, while we agree that it is not possible to prescribe a single measurement basis, the Framework does need to be practical. On reading the ED we did not find support for the claim made in paragraph 1.7 that the ED “identifies the factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances.” We do not think the ED achieves this goal and this will need to be properly addressed in the Framework. As pointed out by Mr Warren, in the absence of a measurement objective, there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities.

The Appendix to this letter contains our response to the questions for comment. If you require further information on any of our views, please contact Mark Shying, CPA Australia by email [mark.shying@cpaaustralia.com](mailto:mark.shying@cpaaustralia.com) or Kerry Hicks, the Institute by email [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a stylized flourish at the end.

**Alex Malley**  
Chief Executive  
CPA Australia Ltd

A handwritten signature in black ink, appearing to read 'Lee White', with a stylized flourish at the end.

**Lee White**  
Chief Executive Officer  
Institute of Chartered Accountants  
Australia

## Appendix

### Specific Matter for Comment 1

**Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.**

Yes, however the Framework needs to clearly articulate a measurement objective and the ideal capital maintenance concept and measurement base for use in the public sector. The measurement objective proposed by Mr Ken Warren at paragraph AV7 to the Basis for Conclusions of the ED to select measurement attributes that most fairly reflect the financial capacity, operational capacity and cost of services resonates with us and we encourage the IPSASB to explore further this line of thought.

We agree with Mr Warren that a Framework that does not articulate a measurement objective and does not then connect that objective to the objectives of financial reporting will have undesirable consequences for the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time.

### Specific Matter for Comment 2

**Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?**

No, as Section 3 of the ED excludes from its discussion fair value and deprival value which we believe are current value measurement bases. Further, paragraph 3.1 states the fair value measurement model is a mechanism for estimating market value when active markets do not exist. We do not agree with this statement, nor do we find the reasons for excluding the two models from the discussion of current value measurement bases convincing. We note that their inclusion in this discussion may have implications for the descriptions of those measurement bases that currently form Table 1. Further, we provide some discussion about replacement cost in our response to Specific Matters for Comment 3 below.

### Specific Matters for Comment 3

**Do you agree with the approaches proposed in Section 4 for application of:**

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and**
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.**

We do not agree with the approach taken that excludes these two measurement models from the discussion of current value measurement bases.

In respect of the fair value measurement model, paragraph 4.7 states that fair value is an exit price; relies on observable evidence; and in the absence of observable evidence relies on unobservable inputs. We agree with those statements. However, we believe the statements about fair value would be improved with the inclusion of some further discussion of unobservable inputs. We would expect that because of the nature of public sector assets that when applying the fair value measurement model public sector entities would often use unobservable inputs. Unobservable inputs may use the entity's own data when that it is the best information that is available, that is an entry price. Unobservable inputs shall reflect the assumptions that market participants would use when pricing the item. That said, there may be many occasions when there is no information available about the assumptions that would be held by market participants. Consequently, an entry price will be used to measure the fair value of the asset notwithstanding fair value is an exit price.

In respect of the deprival value model, we note that when this method was adopted by the Australian public sector in the 1980s (and used in Australia until our adoption of IFRS 2005), deprival value was described differently. It was described as the cost to an entity if it were deprived of an asset and was required to continue to provide goods and services or deliver programs using that asset. We understand that the difference between the approach to deprival value as used in the Australian public sector and the approach to deprival value articulated in the ED concerns the concept of replacement cost. Under the ED approach, replacement cost excludes any service potential in excess of that used to deliver services that would be lost to the entity if it were deprived of it. Under the Australian approach to deprival value as describe above, the replacement cost would always be based on the highest and best use of the asset and that could be different from its current use. In contrast, we understand that the ED would require replacement cost to be based on current use. The reasons for the ED disregarding highest and best use are not clear to us.

#### **Specific Matter for Comment 4**

**Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?**

Our comments to Specific Matter for Comment 2 also apply here – we believe that fair value and deprival value should be part of the discussion.



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Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2, Canada

30 April 2013

Dear Ms. Fox

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

The global organization of Ernst & Young is pleased to respond to the request of the IPSASB (or the Board) to comment on the above Exposure Draft (ED or proposal).

**General comments**

We support and commend the Board for undertaking this difficult project in which very limited guidance has been developed in other conceptual frameworks. As reiterated in our other comment letter on the IPSASB's *ED Elements and Recognition in Financial Statements*, we would strongly encourage the Board to be closely connected to the development of the International Accounting Standards Board's (IASB) conceptual framework and consider the relevance and appropriateness of the decisions taken by the IASB for the IPSASB's conceptual framework. While we acknowledge that there will be some public-sector specific standards and requirements for public-sector transactions, the concepts underpinning the elements, recognition and measurement should be coherent and consistent between both frameworks.

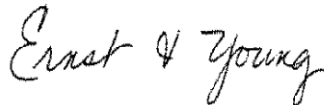
We support the direction that the Board has taken to identify and describe the different measurement bases, and to classify them as either an entry price or an exit price, and either entity or non-entity specific. These categorizations will indeed be helpful for selection of a measurement base in a standard and application of the measurement base in practice, as there will be greater clarity on what a particular measurement base is intended to measure. The discussion on various measurement bases in relation to the objectives and qualitative characteristics would also be helpful to the IPSASB when selecting particular measurement base(s) in a standards-level project.

However, we believe that the Board should provide an overall measurement objective that is linked to the objectives and qualitative characteristics (QC) of financial reporting; which in turn would provide readers a clear linkage between measurement and the objectives and QCs of financial reporting. We don't believe that by setting a measurement objective, it would overly restrict the IPSASB (as mentioned in Basis for Conclusions (BC) 4). On the contrary, it would help the Board select a measurement base in a standards-level project that is consistent with the objectives and QCs of financial reporting. Hence we are supportive of the inclusive of a measurement objective as articulated in Alternative View (AV) paragraphs 6 and 7.

We would also like to emphasize that the conceptual framework should focus its discussion on broad principles of fundamental concepts. The prescription of specific requirements would be more appropriately dealt with at the standards level. Hence we recommend that the Board remove the discussion of possible disclosures for items carried at historical cost in paragraphs 2.6 and 2.7.

Please find our responses to the specific matters for comments set out in the appendix to this cover letter. Should you wish to discuss the contents of this letter with us, please contact Thomas Müller Marqueś-Berger at (+49) 711 9881 15844 or Serene Seah-Tan at (+44) 20 7980 0625.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst & Young'.

## Appendix - Responses to the specific matters for comments

### Specific Matter for Comment 1

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

As mentioned previously in our cover letter, we support the inclusion of a measurement objective as articulated in AV 7:

“To select those measurement attributes that *most fairly reflect* the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.” [emphasis added]

Further, in order to ‘select those measurement attributes that *most fairly reflect* the operational capacity...’ the relevance and decision-usefulness of the information provided needs to be balanced with the cost of a particular measurement being justifiable to the benefits to users. Also, methods of measurement used by entities need to be consistent from period to period (unless required by changes in standards or changes in economic conditions e.g. disappearance of an active market), in order to ensure information provided to users is understandable.

### Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

Firstly, we do not believe that it is necessary to classify measurement bases as to whether they are ‘observable’ or ‘non-observable’ in a market. Whether or not a measurement base is observable, it deals with the *type of evidence* available to support that measurement, rather than what the measurement base is intended to represent.

Further, we do not believe it is necessary to distinguish between the two types of market values (active and inactive markets) as set out in the table in paragraph 3.2. To illustrate this point, take for example, when estimating market value in an inactive market, the measurement objective is still the same as when market value is

observable in an active market, which is the determination of the market-participants' (non-entity-specific) view of the current exit price.

Following from the above point, we do not believe that the 'fair value model' discussed in paragraphs 4.5-4.8 represents a measurement model, as distinct from a measurement base. There is a marked contrast of the discussion of the deprival value model - which is a model for choosing between several measurement bases - and the 'fair value model', which is really a continuation of the discussion of the 'market value' discussed in paragraphs 3.3 - 3.8. Therefore we suggest that the discussion in paragraphs 4.5 - 4.8 be moved to Section 3 as part of paragraphs 3.3 - 3.8.

We also note that the definition of market value in paragraph 3.3 is the old definition of fair value, i.e. the definition currently used in IPSAS and in IASB standards before the adoption of IFRS 13 *Fair Value Measurement*. The old definition has always been ambiguous as to whether it is an entry or exit price (for example, it talks about an exchange of an asset instead of the sale of an asset); whereas the IASB's new definition in IFRS 13 is clearly an exit price. Given that the proposals in this ED effectively treats market value as an exit price, it would be better to adopt the new IFRS 13 definition in the IPSASB's conceptual framework.

#### **Specific Matter for Comment 3**

Do you agree with the approaches proposed in Section 4 for application of:

- a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not, please give your reasons.

In addition to the fact that as mentioned in SMC 3, we do not believe fair value model to represent a measurement model, we also seek further clarifications on the following in section 4:

Firstly, paragraph 4.4 could be confusing to readers. The first scenario as described in this paragraph - the fair value model is used to estimate a market value where an active market *does not* exist. Paragraph 4.5 goes on to describe the objective of fair value model is to estimate the price to sell an asset in an *active, open and orderly market*. Without further explanation, paragraph 4.7 then says that unobservable inputs may be relied on in a fair value model when observable market evidence is unavailable. Presumably (from the reading of paragraph 3.1), the intention was to convey that a fair value model could be used in situations where market inputs are not available in the absence of an active market, and unobservable inputs can be used as proxies. It would be helpful for the Board to be more explicit and reiterate this point within this discussion.

Secondly, the term 'operational assets' used in the description of the deprival model (and elsewhere in the ED) is not defined in the ED, hence it would be ambiguous as to what would be deemed 'operational' versus 'non-operational'. For example, operational assets usually refer to property, plant & equipment (PP&E) used in the production of goods and services. Hence, is the Board referring to only PP&E in this context? It would be helpful for the Board to provide greater clarity on what type of assets would be deemed as operational assets.

**Specific Matter for Comment 5**

- a) Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

The discussion of market value in the context of liabilities in paragraph 5.6 is confusing and inconsistent with other parts of the ED. It appears to be talking about market value of a liability as being its transfer price. This is consistent with the IASB's new definition of fair value (in IFRS 13, which refers to the price at which a liability could be transferred), but is inconsistent with the definition of market value that the IPSASB is using in paragraph 3.3. The definition in paragraph 3.3 refers to 'settling' a liability, not transferring it. Therefore, as mentioned previously, we recommend changing paragraph 3.3.

In this section, it then continues to discuss two different types of settlement - 'immediate settlement' (in the discussion of cost of release in paragraphs 5.7-5.11) and 'settlement over time in accordance with the obligations' (in the discussion of cost of fulfilment in paragraphs 5.18-5.25). These are different measurement bases to market value, so it seems that the Board is considering that the 'market value' of a liability is its current transfer price, i.e. a market participant view of its current exit price. This reinforces our earlier point that by updating paragraph 3.3's definition of market value to the new IFRS 13 definition, the inconsistency between paragraphs 3.3 and 5.6 would be resolved.





Financial Reporting Council

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

15 May 2013

Dear Stephenie

**Re: ED 3 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements.***

1. The Committee on Accounting for Public Benefit Entities (CAPE) welcomes the opportunity to comment on the above exposure draft. CAPE is an advisory committee to the FRC's Accounting Council, which advises the FRC Board as the UK standard-setter. It should be noted that as the IASB's Conceptual Framework develops so too may the Council and Board's thinking.
2. We reiterate our comments from previous responses to the conceptual framework that we believe that it is important that the differences between the IASB and IPSASB be minimized where possible.
3. Our responses to the Specific Matters for Comment are set out in the attached Appendix. If you require any further information please contact Joanna Spencer ([j.spencer@frc.org.uk](mailto:j.spencer@frc.org.uk)) or telephone +44 (0) 20 7492 2428.

Yours sincerely

A handwritten signature in black ink that reads 'M McLaren'.

**Melanie McLaren**  
Executive Director, Codes and Standards  
DDI: 020 7492 2406  
Email: [m.mclaren@frc.org.uk](mailto:m.mclaren@frc.org.uk)

***Specific Matter for Comment 1***

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective, please indicate what this measurement objective should be and give your reasons.

Yes - we agree that the selection of measurement bases should be based on the extent that they meet the objectives of financial reporting.

That said we believe that it is useful to have a measurement objective to determine whether the measurement base selected will achieve that objective. We know that the objective of financial reporting is to provide information for accountability and decision-making purposes. Without a measurement objective, we are unsure how it is possible to determine whether the 'measured' information will meet these objectives.

One proposed measurement objective is 'Assets and liabilities should be stated at the amount of their current value (burden) to the entity'. This contains two substantive points: it makes clear that current values are to be preferred, which accords with their greater relevance this would not preclude the use of historical cost within standards where it is a reasonable proxy for current measures, or where historical costs may add significance for decision-making purposes (for example, in providing a cost basis against which gains can be measured) or for accountability purposes; and it makes clear that the value must be relevant to the circumstances of the entity, rather than the value that an asset might have to another.

***Specific Matter for Comment 2***

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

We are of the view that 'current market value' is an overarching concept. We consider that replacement cost, net selling price and value in use all rely on a concept of market value. However we do not suggest that market value be removed from the discussion of current value measurement bases but that it should be presented as a desirable attribute of whichever other basis is being adopted and not as a measurement basis in its own right.

We do not consider that any other current value measurement bases for assets should be included in the framework

***Specific Matter for Comment 3***

Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

Yes – we consider that the ED's discussion of fair value and deprival value is balanced and we have no other comments to make.

***Specific Matter for Comment 4***

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

Whilst we agree with the proposed measurement bases for liabilities, we reiterate our comment made in SMC 2 that we consider market value to be an overarching concept that is implicit in other current value measurement bases.

**Other Comments**

As stated in our response to SMC 1 we consider that it is necessary for there to be a measurement objective that will result in information being presented in a manner which will ensure it meets the objectives of financial reporting – accountability and decision-making.

We are unsure about the emphasis on historical cost in Section 2 and indeed how information presented on an historical cost basis will meet the objective of decision-making. We understand the view that it may have a role in meeting the accountability objective but note that it may also be argued that current values are also relevant for this purpose. We would suggest that, in order to meet the decision-making objective information should usually be presented on a current value basis, unless it is clear either that price changes are insignificant or that no reasonably reliable current value is

available. To our mind the ED places too much emphasis on historical cost: it should not be presented as a 'preferred' measurement model

We have some sympathy with Ken Warren's alternative view and agree that a measurement objective is necessary to connect the overall objectives of financial reporting and the qualitative characteristics to decide on which measurement basis or model to choose.