



# International Public Sector Accounting Standards Board

Conceptual Framework: Measurement

Agenda Item 2B

John Stanford

Toronto, Canada

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# Objectives of Sessions/Materials

- a) To discuss a preliminary analysis of responses to CF–ED3, *Measurement of Assets and Liabilities in Financial Statements*
- b) To obtain preliminary directions for development of final chapter; and
- c) To identify issues for further discussion in September.

## Materials Presented:

- 2A.1 Issues paper
- 2A.2 List of respondents/collation with staff views
- 2A.3 Analysis of respondents—region, function & language
- 2A.4 Responses to CF–ED3

# Background

- CF–ED3 issued November 2012
- Consultation period until April 30, 2013
- 37 responses as at May 15, 2013
- Preliminary analysis at this meeting
- Further and fuller analysis at September meeting

# General Comments and Overall Views (1): Paragraphs 4-10

- Relationship with IASB Framework: Agenda Item 2.1
- Gulf in views on objective
  - Generally content with approach
  - Measurement objective based on measurement basis of group of bases
  - Support for Alternative View(AV) ; Is AV aligned to current value
- Fair value/market value
  - Fair value measurement model
- Entry values & operational capacity
  - Replacement cost as measurement basis rather than valuation technique.
- Deprival value model

# General Comments and Overall Views (2): Paragraphs 11-12

- Way forward
  - Widening of divergences with IFRS and practical difficulties (see Respondent 033)
  - Appropriateness of extensive reliance on exit values

## Staff View

- 1) Reaffirm that historical cost will be retained
- 2) Explore approach of primary measurement bases: fair value for financial capacity and optimized depreciated replacement cost for specialized assets for operational capacity

*Matter for Consideration: View on adequacy of Staff summary*

# Specific Matter for Comment 1 : Measurement Basis/Measurement Objective (1) : Paragraphs 13-17

- No specific measurement objective in CF–ED3
- AV proposed objective
  - Selection of measurement attributes reflecting financial capacity, operational capacity & cost of service linked to accountability and decision making
- Proposal uncontroversial
- Classification not straightforward
- 15 supportive (of 35 expressing view)
  - 017 proposed measurement objective based on approach

# Specific Matter for Comment 1: Measurement Basis/Measurement Objective (2) : Paragraphs 13-17

- 13 partially supportive
  - Need for approach to be supplemented by measurement objective
  - Considerable support for approach in AV
- 7 opposed approach
  - Approach not identifying clear measurement objective defective
  - Strong support for AV
  - 024 & 030 emphasize historical cost
- **Staff View**
  - (i) clearer measurement objective would be beneficial; (ii) objectives based on measurement basis/group of measurement bases unrealistic; (iii) convert CF-ED3 approach into objective

*Matter for Consideration: Support of Staff View?*

# Specific Matter for Comment 2: Current Measurement Bases (1): Paragraphs 18-20

- Section 3 of CF–ED3: market value, replacement cost, net selling price, value in use
- Fair value
  - Not proposed as measurement basis
  - Market value and fair value largely synonymous
  - Definition in IFRS 13 explicitly an exit value
  - Are exit values generally appropriate for assets primarily held for operational capacity
- Replacement cost
  - Measurement basis in own right not a valuation technique for estimating fair value ( cost approach in IFRS 13)



# Specific Matter for Comment 2: Current Measurement Bases (2): Paragraphs 20-25

- 15 supportive (34 expressed view) with points including:
  - Explicit support for exclusion of fair value (010)
  - Market value not appropriate for operational assets (013):
  - Discussion of additional disclosures inappropriate in Framework (034)
- 7 partially supportive
  - Fair value rather than market value (003)
  - More appropriate term: Optimized depreciated replacement cost (003 & 011)
  - Symbolic/nominal value: heritage assets (018)
  - Over-reliance on entity-specific values? (021)
  - Holding gains (019, 023, 030)
  - Historical cost primary basis (023)

## Specific Matter for Comment 2: Current Measurement Bases (3): Paragraphs 23-25

- 12 respondents opposed
  - Fair value exclusion a serious flaw (006, 011, 028, 035 & 036)
  - Replacement cost: internally inconsistent & inconsistent with IFRS and International Valuation Standards (006)
  - Replacement cost: based on theoretical assumptions open to manipulation rather than “highest & best” approach (006)
  - Replacement cost: term unclear/ optimized depreciated replacement cost clearer (003)
  - Replacement Cost: Valuation technique to estimate fair value not a measurement basis (006 & 028)
  - Distinction between entry and exit values unnecessary (028)
  - Historical cost superior (024 & 027)

# Specific Matter for Comment 3(a): Fair Value Measurement Model (1): Paragraphs 26-27

- Fair value measurement model
  - Method of determining market value where (i) market value appropriate basis and (ii) market inactive or otherwise not open or orderly
  - Exit basis
- 10 supportive (of 34 expressing view)
  - More details of practical application (027)
  - Approaches supported but too low level for Framework (034)

# Specific Matter for Comment 3(a): Fair Value Measurement Model (2): Paragraphs 28-32

- 13 partially supportive
  - Adopt IFRS 13 definition unless public sector reasons (003)
  - Support for AV approach on current exit bases for financial capacity (007)
  - Extend fair value to all assets (006 & also 028)
  - Models too detailed for Framework (010)
  - Inappropriate for non-financial assets (019)
  - Confusion with IASB approach (020)
  - Clarification of terms market value and fair value (021)

# Specific Matter for Comment 3(a): Fair Value Measurement Model (3): Paragraphs 34-36

- 11 opposed
  - Confusion between market value and fair value (008)
  - Inappropriate for public sector (022 & 024)
  - Measurement models standards-level (009 & 017)
  - Non-inclusion of fair value as a measurement basis (011, 028 & 035)
  - Fair value definition should be as in IFRS 13 (011 & 028)
  - Not a model (036)
  - More discussion of unobservable inputs (035 and 036)

# Specific Matter for Comment 3(a): Fair Value Measurement Model (4): Paragraphs 34-36

- **Staff View**

- Fair Value Model too low level for Framework
- Non-inclusion of fair value as measurement basis but use of fair value model confusing
  - IPSAS 16 uses term “fair value model” as option for subsequent measurement
- Questionable whether fair value model should be retained
- Use some material in section 3
- Distinction between market value in “open, active and orderly market” and fair value as explicitly an exit value

Matter for Consideration: Support of Staff View on above issues?

# Specific Matter for Comment 3(b): Deprival Value Model (1): Paragraphs 37-41

- Selection of measurement basis primarily by evaluating extent to which it contributes to objectives of financial reporting and meets the QCs
- Deprival value model to select or confirm use of current measurement basis
- 8 respondents (of 31 expressing view) supportive
- 6 partially supportive
  - Framework should not prescribe detailed models (010, 023 & 024)
  - Cost implications and complexity (002 & 021)
  - Scope for identification of development or redeployment opportunities (003)

# Specific Matter for Comment 3(b): Deprival Value Model (2): Paragraphs 37-41

- 16 opposed model
  - Cost and complexity (005, 006, 007, 008, 009, 011, 013, 017, 018, 019, 020, 027, 028, 032, 033 & 035)
  - Strong technical disagreements
    - UK centric
    - Hypothetical assessments of replacement cost
    - Unreliable estimates of depreciation
    - Inconsistent measurement outcomes
    - Open to manipulation)



# Specific Matter for Comment 3(b): Deprival Value Model (3): Paragraphs 37-41

## Staff View

- Model provides useful insights into relationship between current value measurement bases
- Complex & costly
  - Staff view can be exaggerated as will only be used selectively
- Technical underpinning contestable
- Do not retain, but move some material into section 3.

*Matter for Consideration: Views on above issues?*

## Specific Matter for Comment 4: Liabilities (1): Paragraphs 42-47

- 5 measurement bases proposed: historical cost, market value, cost of release, assumption price and cost of fulfillment
- 17 (of 33 expressing view) supported measurement bases (001, 002, 04, 009,010,012,013,016,017, 020,021,023,025,026,029,030 &034)
  - View that some of material on cost of release model in paragraph 5.9 more related to recognition
- 8 partially agreed (05.007,008,011, 019 ,022, 031 & 037)
  - Cost of assumption questioned
  - Table linking measurement bases to corresponding asset terms

# Specific Matter for Comment 4: Liabilities (1): Paragraphs 42-47

- 8 disagreed
  - Omission of fair value
  - Discussion inconsistent with definition in section 3
  - Reservations about cost of release including view that inconsistent with public sector service delivery objectives
  - Measurement to take into account pro-cyclical factors
- Staff View:
  - Dependent on views on fair value
  - Retain measurement bases for preliminary draft of final chapter

*Matter for Consideration: Views on above issues?*

## Other Issues: Paragraphs 48-51

- Drafting style
- Valuation of assets on stand-alone or group basis
- Other cash flow-based measures

*Matter for consideration: Consider these issues with a view to (i) modifying style and (ii) inclusion of some material in finalized Framework*

# Way Forward

- Further discussion of key issues at September meeting:
  - Inclusion of late submissions
  - Is objective feasible and if so what should it be
  - Approach to fair value/market value
  - Retention of fair value/deprival value models
  - Replacement cost as measurement basis



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