

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 17–20, 2013

Agenda Item 2B

For:

☐ Approval

☒ Discussion

☐ Information

Conceptual Framework: Responses to Exposure Draft, *Measurement of Assets and Liabilities in Financial Statements*

Objective(s) of Agenda Item

1. The objectives of the session are:
 - (a) To discuss a preliminary analysis of the responses to the Conceptual Framework Exposure Draft (CF–ED3), *Measurement of Assets and Liabilities in Financial Statements*;
 - (b) To obtain preliminary directions from the IPSASB for the development of a final chapter where appropriate and
 - (c) To identify issues for further and more detailed discussion at the September meeting.

Material(s) Presented

Agenda Item 2B.1	Issues Paper
Agenda Item 2B.2	List of Respondents and Collation and Summary of Respondents' Comments with Staff Comments
Agenda Item 2B.3	Analysis of Respondents by Region, Function, and Language
Agenda Item 2B.4	Responses to CF–ED3 (previously circulated)

CONCEPTUAL FRAMEWORK: ISSUES PAPER ON RESPONSES TO CF-ED3

Objectives of Issues Paper

1. This Issues Paper summarizes the responses to Conceptual Framework Exposure Draft (CF-ED3), *Measurement of Assets and Liabilities*; and provides an initial staff assessment of the main issues arising from the consultation responses with a view to obtaining directions for development of a final chapter on Measurement, where appropriate, and identifying issues for further detailed discussion in September 2013.

Background

2. Conceptual Framework Exposure Draft (CF-ED3), *Measurement of Assets and Liabilities in Financial Statements*, was issued in early November 2012 with a consultation period until April 30th 2013. As at May 15th, 2013, 37 responses had been received. These responses have been posted on the IPSASB section of the IFAC website and have been previously circulated as Agenda Item 2B.4. A collation and summary of respondents' comments with staff comments is provided at Agenda Item 2B.2. A list of these respondents and an analysis by region, function and language is provided at Agenda Item 2B.3.
3. Responses received after May 15th have been posted on the website. They are not reflected in these agenda papers and will not be considered at the June meeting. However, they will be thoroughly considered and reflected in the agenda papers for the September meeting.

General Comments and Overall Views

4. A number of respondents highlighted the relationship between the IPSASB Framework and the reactivated IASB Conceptual Framework. This issue is discussed in the Coordinator's Report at Agenda Item 2.1. This issue is not considered further in this Issues Paper.
5. In categorizing responses Staff have had to exercise judgment. The substance of the points raised in responses is more important than the staff categorization. This is particularly the case for Specific Matter for Comment (SMC) 1 where the nature of the SMC did not make classification of responses straightforward (see below paragraphs). It is therefore important that the responses themselves are scrutinized.
6. There was a gulf in views between those (i) who are generally content with linking the selection of a measurement basis to the objectives of financial reporting as proposed in CF-ED3 and (ii) those who favor a measurement objective based on a measurement basis or group of bases, such as current value. Staff notes that, while there was considerable support for the Alternative View (AV) of Ken Warren a number of respondents expressed opposition or strong reservations to a focus on current value measurement bases, which was advocated by the AV. Staff's view is that a measurement objective based on a measurement basis or group of bases would be beneficial. A measurement objective such as that articulated in the AV would provide clearer guidance to IPSASB in setting standards-level measurement requirements. However given the importance that

is attached to historical cost as the measurement basis most conducive to the objective of accountability by a significant number of respondents Staff doubts whether establishment of a measurement objective based on a measurement basis or group of measurement bases is realistic at this stage of global public sector standard setting. It might be feasible to reframe the approach proposed in CF–ED 3 as a measurement objective as proposed by Respondent 007. This would provide a clearer indication of the IPSASB's approach, although it would have no substantive impact.

7. Fair value was not proposed as measurement basis in CF–ED3. A number of respondents disagreed with the non-inclusion of fair value as a measurement basis for both assets and liabilities and were not convinced by the fair value measurement model as a method of estimating market value where it had been determined that market value is the appropriate measurement basis, but the market is not open, active and orderly. Some of these respondents highlighted the reliance on fair value in existing IPSASs and pointed out that if fair value is not included in the finalized Framework there will be a dislocation between the IPSASB's current standards and the Framework. They also highlighted that there will be a misalignment with International Financial Reporting Standards (IFRS) and that this will create difficulties on consolidation of controlled entities reporting under IFRS. As indicated below, Staff does not think that the fair value model in Section 4 of CF–ED3 should be retained.
8. While there was considerable support for the emphasis on entry values for assets primarily held for their operational capacity, and replacement cost as defined in CF–ED3 there were also misgivings. Again these were pronounced amongst respondents who place a strong emphasis on alignment with IFRS. Currently in IPSAS 17, *Property, Plant and Equipment*, depreciated replacement cost is a method of estimating fair value where there is no market-based evidence of fair value because of the specialized nature of the asset. CF–ED3 proposed replacement cost as a measurement basis in its own right for specialized assets held for their operational capacity.
9. Although it received some support there was considerable opposition to the deprival value model, which was proposed as a method of selecting or confirming the use of a current value measurement basis. Most opposition was on grounds of complexity and cost. Respondents 003, 006 and 028 highlighted what they considered technical defects, primarily that deprival value, as discussed in the ED, is dependent up on an optimized notion of replacement cost rather than a highest and best approach, but also that the model is open to manipulation and fails to identify potential redevelopment or redeployment opportunities. Staff thinks that the deprival value model provides some worthwhile insights into the relationship between the current value measurement bases that Section 3 of CF–ED3 proposes. However, these insights can be included in the analysis of those current measurement bases. Therefore staff does not favor its retention in the draft final chapter.
10. These are complex issues, which are at the core of the Framework and will have a major influence on IPSASB's future standard setting activities. In particular the extent to which exit values based on market evidence are appropriate for assets held for their operational capacity is crucial. Some argue that the difficulties of obtaining observable market-based of specialized assets are exaggerated. (See paragraph 23 in particular). Others consider that approaches to estimate exit values fail to adequately take into account the characteristics of the public sector and the objectives of public sector financial reporting.

11. Staff has mixed views on the way forward. Staff recognizes the fears of those who consider that some of the proposals in CF–ED3 will widen divergences with IFRS, increase subjectivity, and lead to practical difficulties in the future for consolidation where controlled entities are reporting on IFRS. On the other hand Staff considers that an extensive reliance on exit values for assets primarily held for their operational capacity does not provide the most faithfully representative and relevant information to meet the objectives of financial reporting.
12. The tentative preliminary view of Staff is that (i) use of historical cost should be reaffirmed and (ii) an approach of retaining fair value for assets/liabilities held for their financial capacity and introducing optimized depreciated replacement cost as the primary measurement basis for specialized assets held for their operational capacity should be explored. The latter approach is broadly in line with the AV, although it does not embrace the AV's support for the deprival value model.

Matter(s) for Consideration

1. The IPSASB is asked to **provide a view** on whether Staff has summarized the general comments to CF–ED3 adequately.

Specific Matter for Comment 1: Selection of a Measurement Basis/Measurement Objectives

13. CF–ED3 did not propose a specific measurement objective. It proposed 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: accountability and decision making. CF–ED3 indicated that the selection of a measurement basis is particularly important in meeting the information needs of users if it provides information on financial capacity, operational capacity and the cost of services. The Alternative View stated that a measurement objective is necessary and proposed that the measurement objective should be: *To select those measurement attributes that most 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.*
14. 15 respondents supported the approach in CF–ED3 (Respondents 001, 002, 004, 005, 006, 008, 009, 012, 017, 019, 021, 026, 029, 033 and 034). Respondent 017 suggested converting the approach into a measurement objective: *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.*
15. A further 13 respondents partially supported the proposal (003, 011, 013, 016, 020, 022, 023, 025, 027, 028, 032, 035, 037). Most of these respondents considered that the approach should be supplemented by a measurement objective. Given that a view that selection of a measurement basis on the extent to which it meets the objectives of financial reporting might be considered uncontroversial it is unsurprising that the proposition in the SMC garnered considerable support. For example, Respondent 006, who elsewhere expressed very strong opposition to the approach in CF–ED3 supported the proposal on selection of a measurement basis, but then emphasized that the objectives (of financial reporting) should be the same for all users of general purpose financial statements, irrespective of whether the entity is a public sector entity or private sector entity. Similarly Respondent 028 supported the proposal, but made it very clear that, consistent with the

Alternative View, the development of a specific measurement objective should supplement and/or tailor the broader objectives of financial reporting. Respondent 028 also disagreed with the IPSASB's decision to not prescribe a single measurement basis on the grounds that the Framework should represent a conceptual ideal. Respondent 011 agreed 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, but endorsed the AV. The AV stated that it was not in competition with the view 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.

16. Notwithstanding its anodyne nature seven respondents opposed the proposition in SMC`1 (Respondents 007, 010, 018, 024, 030, 031, 036). Most of these respondents took the view that an approach to measurement that fails to identify a clear measurement objective is defective and will lead to confused and incoherent standard setting. Most of these respondents supported the AV. Conversely, Respondents 024 and 030 expressed support of historical cost. Respondent 030 considered that historical cost should be the primary measurement basis and that there should be appropriate criteria to gauge when alternative bases of measurement might be appropriate.
17. As indicated in paragraph 6 staff thinks that a clearer measurement objective would be beneficial but doubts whether establishment of a measurement objective based on a measurement basis or group of measurement bases is realistic. Converting the proposed approach into a measurement objective as proposed by respondent 017 has merit in emphasizing the IPSAB's aims in the Measurement chapter, although it will have little substantive impact. If this approach is adopted Staff would also prefer putting any reference to the cost of measurement at the end of the objective.

Matter(s) for Consideration

2. The IPSASB is asked to **indicate** whether they support the Staff view that (i) a clearer measurement objective would be beneficial; (ii) establishment of a measurement objective based on a measurement basis or group of measurement bases is unrealistic and (iii) the approach proposed in CF–ED3 should be converted into a measurement objective.

Specific Matter for Comment 2: Current Value Measurement Bases for Assets

18. Section 3 of CF–ED3 proposed four current value measurement bases: market value, replacement cost, net selling price and value in use. The most controversial aspects of the approach to current value measurement bases were that fair value was not included in the proposed measurement bases and that replacement cost was proposed as a measurement basis in its own right rather than as a valuation technique for estimating fair value.
19. The rationale for not proposing fair value as a measurement basis in addition to market value was (i) that market value and fair value are largely synonymous, and that to propose both as measurement bases would therefore be confusing for users and (ii) that the IASB at standards level in IFRS 13, *Fair Value Measurement*, defines fair value as an exit value. The application of an exit value seemed inappropriate for assets that are primarily held for their operational capacity.
20. 15 of the 34 respondents who expressed a view supported the current measurement bases proposed in CF–ED3 (001, 002, 004, 005, 010, 012, 013, 016, 017, 019, 020, 025, 026, 029, 034). Respondent 010 expressly supported the exclusion of fair value from the list of measurement

bases. Respondent 013 considered that the Framework should be more assertive and state that market value is not an appropriate measurement basis for operational assets where there is not an open and active market. Respondent 034 did not support the discussion of additional disclosures, which were proposed to provide information on measurement under measurement bases other than those selected for recognition. Respondent 034 suggested that additional disclosures should be addressed at standards level. Staff notes this point and will consider it further for the September meeting.

21. Seven respondents partially supported the current measurement bases (003, 007, 008, 009, 018, 021, 023). Respondent 003 considered that fair value should be included rather than market value and suggested that the term “optimized depreciated replacement cost” should be used rather than “replacement cost”. (Respondent 011 also proposed the use of ‘optimized depreciated replacement cost’). This would explicitly acknowledge that the measurement basis refers to the replacement of the service potential provided by the asset rather than the asset itself.
22. Respondent 018 raised the issue of heritage assets noting that in France, the basis of measurement at no cost is applied to such assets when their historical cost is unknown and their “symbolic value” is not measurable. Respondent 021 expressed reservations that, apart from market value, the other three current value measurement bases proposed are entity-specific. Respondent 023 suggested that there should be more clarification of the advantages and drawbacks of using historical cost and current value measurement bases. Respondent 023 also highlighted the issue of holding gains and asked for the implications for financial performance to be explained (in their general comments Respondents 019 and 030 also raised this issue.) This respondent also considered that historical cost should be the primary basis for measuring assets. The more detailed Staff view on these points is in the Collation and Summary at Agenda Item 2B.2.
23. 12 respondents opposed the proposed set of measurement bases (Respondents 006, 011, 024, 027, 028, 030, 031, 032, 033, 035, 036 & 037). Respondent 006 considered that fair value should be specifically included to ensure harmonization between IFRS and IPSAS and opposed the approach to replacement cost as being internally inconsistent as well as inconsistent with IFRS and International Valuation Standards. In the view of this respondent the approach to replacement cost does not measure the service potential embodied in the asset, but takes into account theoretical assumptions that lead to valuations and depreciation estimates that do not meet the QCs of financial reporting. This respondent considered that CF–ED3 greatly exaggerated the difficulties of obtaining market evidence for specialized assets and considered that the exit price approach in IFRS 13 has been used successfully in a number of jurisdictions to determine the value of operational assets. Respondent 028 also considered replacement cost in the form of the cost approach to be a method of estimating fair value and not a separate measurement basis. Staff notes that the International Valuation Standards Council (IVSC) issued an Exposure Draft of a Technical Issues Paper, *Valuations of Specialised Public Service Assets*, in late 2012. This ED discussed issues related to the valuation of specialized public sector assets. In particular the TIP acknowledged the restrictions on many public sector assets. These restrictions may mean that certain opportunities or alternative uses are not available and therefore should not be taken into account when assessing value.
24. Respondents 011, 028, 033 035 and 036 also criticized the non-inclusion of fair value as defined in IFRS 13. Respondent 028 supported the use of valuation techniques to estimate fair value and considered the distinction between entry and exit values is unnecessary. Respondent 024

supported the use of historical cost and nominal values and Respondent 027 considered that CF–ED3 did not provide evidence to support an assumption that replacement cost results in a measurement outcome superior to historical cost. Respondent 031 did not think that the Framework should propose particular measurement bases at all, but rely on a clearer measurement objective.

25. As indicated in paragraph 10 and in Agenda Item 2.1 staff recognizes the importance that many respondents attach to the adoption of measurement approaches consistent with IFRS. Staff thinks that the suggestion of Respondents 003 and 011 for use of the term “optimized depreciated replacement cost” should be considered further. While it is a long-winded term for a measurement basis, as noted above and pointed out by Respondent 003, its use would explicitly recognize that the “cost of replacement” refers to the service potential rather than the asset.

Matter(s) for Consideration

3. The IPSASB is asked to **provide a view** on whether Staff have adequately summarized the main issues from the response to SMC 2 and to highlight further issues for discussion at the September meeting.

Specific Matter for Comment 3 (a): Fair Value Measurement Model

26. Although CF–ED3 did not include fair value as a measurement basis in its own right it proposed the fair value measurement model as a method of determining market value where it has been decided that market value is the appropriate measurement basis, but the market is inactive or otherwise not open or orderly. Such a measure would be an exit basis.
27. 10 respondents supported the fair value model (001, 004, 005, 012, 016, 027, 029, 033, 034 and, 037). Respondent 027 wanted more details of the practical application of the model. Respondent 034 agreed with the approaches for both the fair value model and the deprival value model, but considered the models too low level for the Framework.
28. 13 respondents partially supported the fair value model (002, 003, 006, 007, 010, 018, 019, 020, 021, 023, 025, 031 and 032). Respondent 003 agreed with the thrust of the approach but encouraged IPSAS to adopt the definition of fair value in IFRS 13 unless there are specific public sector reasons for not doing so. Respondent 007 agreed with the AV’s view that current exit based measurement bases provide the most useful information about financial capacity. The respondent highlighted the approach in the Canadian Public Sector Accounting Board’s Handbook which requires derivatives and equity instruments quoted in an active market to be measured at fair value, but gives entities the option of extending fair value measurement to other financial instruments when it is consistent with a risk management or investment strategy that has been defined and implemented at the reporting entity level.
29. Respondent 006 indicated that he agreed with the model, but consistent with his strong opposition to the approach in CF–ED3, indicated that fair value should be used as the measurement basis for all assets rather than being limited to those related to financial capacity. The scope of the fair value model did not extend to all assets.
30. Respondent 010 broadly supported the model but did not support describing either the fair value model or the deprival value model in the Framework. This respondent did not consider 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. Similarly Respondent 023 considered that Section 4 should be moved to the Basis for Conclusions and that the fair value model should be used at the standards-level as an estimation technique. Respondent 025 also questioned whether the level of detail in the model is necessary in the Framework.

31. Respondent 019 agreed with the use of the fair value model for some assets, but considered it inappropriate for measuring non-financial assets and indicated that the historical cost model is the most appropriate model for measuring operating capacity and the cost of providing services.
32. Respondents 020 highlighted the potential for confusion between the IASB's approach to fair value and the fair value model and Respondent 021 sought clarification about the usage of the terms market value and fair value.
33. 11 respondents clearly did not support the fair value model (008, 009, 011, 013, 017, 022, 024, 028, 030, 035 and 036). Respondent 008 highlighted the potential confusion between market value and fair value. In light of the non-commercial nature of the public sector this respondent opposed widespread adoption of the fair value basis. Respondents 022 and 024 also considered the model inappropriate for the public sector. Respondent 030 expressed a view that deviation from historical cost to fair value (or deprival value) should be in limited circumstances. Respondent 013 considered that the premise that the asset will be used in its highest and best value would lead to assets being valued at a higher amount than the value that the entity derives from them. In the view of staff it was not the intention in CF-ED3, for the fair value model to be applied to operational assets.
34. Respondents 009 and -017 considered that any consideration of measurement models should be at the standards-level.
35. Respondents 011 and 028 reaffirmed general comments that fair value should be defined as a measurement basis using the IFRS 13 definition. Like Respondent 006, Respondent 028 considered that fair value can be applied to all assets. Respondent 035 also disagreed with the failure to include fair value as a current value measurement basis. Respondent 036 did not consider that approach to fair value in section 4 to be a model. Both Respondents 035 and 036 also wanted more discussion of the use of unobservable inputs in estimating fair value. In this regard a late draft of the ED considered at the September 2012 meeting did include more discussion of what have been classified as Level 1, Level 2 and Level 3 inputs in IFRS 13 (Level 3 inputs are unobservable). This was considered too detailed for the Framework and deleted following discussion at the September 2012 meeting.
36. Staff generally agrees with those respondents who think that the fair value model is too low level for the Framework and thinks that it is questionable whether the fair value model should be retained in the draft final chapter on Measurement. The disavowal of fair value as a measurement basis, but the proposal to convert fair value into a model is confusing to some users. Further it seems like a device to incorporate fair value into the IPSASB's standard setting apparatus without including it as a measurement basis. It may be possible to distinguish "market value in an open, active and orderly" market which is both an entry and exit value and fair value as an explicitly exit value where the market is not open, active and orderly. Staff proposes to explore this further for the September meeting.

Matter(s) for Consideration

4. The IPSASB is asked to **indicate** whether they support the Staff view that the fair value measurement model should not be retained and that this material should be relocated to section 3.

Specific Matter for Comment 3 (b): Deprival Value Model

37. As previously noted CF–ED3 stated that 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. The deprival value model was discussed as a method of selecting or confirming the use of a current measurement basis for assets.
38. Eight respondents of the 31 expressing a view on this SMC supported the deprival value model (001, 004, 012, 016, 029, 031, 034 and, 037). Most of these respondents provided little supporting argumentation to reinforce their view. Although supporting the approach in the deprival value model Respondent 034 considered that the Framework might not be the right place for the discussion of the two approaches on the basis that consideration at standards level might be more appropriate.
39. Six respondents partially supported the deprival value model (002, 003, 010, 021, 023 and 024). Respondents 002 and 021 expressed reservations about the cost implications of obtaining three measurements and the complexity of the model. Respondents 010, 023 and 024 broadly agreed with the approach, but did not consider that the framework should prescribe detailed models. Respondent 003 considered that the application of deprival value might usefully highlight the existence of development or redeployment opportunities citing an academic reinterpretation of the model. Staff considers it unlikely that the model as described in CF–ED3 would identify such opportunities. Staff will consult with one of the co-authors of this article (who is a fellow member of the United Kingdom Accounting Council's Committee on Accounting for Public-benefit Entities) and further consider this point in the agenda papers for the September meeting. The significance of this issue to the final chapter is largely dependent on whether the deprival value model is retained.
40. Most of the 16 respondents (005, 006, 007, 008, 009, 011, 013, 017, 018, 019, 020, 027, 028, 032, 033 & 035) who opposed the deprival value model cited its complexity and cost implications. Respondents 006 and 028 challenged the model on technical grounds. Consistent with his strictures on the overall approach and the definition and application, of replacement cost Respondent 006 considered that CF–ED3 put forward a flawed UK version of the deprival value model that relies on hypothetical assessments of replacement cost and unreliable estimates of depreciation, is complex, inefficient, provides inconsistent outcomes and is open to manipulation. Respondent 028 also considered the introduction of a separate measurement model for operational assets to be unnecessary and needlessly complex.
41. As indicated in paragraph 9 Staff thinks that the deprival value model provides worthwhile insights into the relationship between the current value measurement bases in section 3. However, it is certainly complex. It is potentially costly, although the latter point can be exaggerated as it will not be necessary to use the model for all operational assets. It is clear also that some of the conceptual underpinning are contestable. Staff thinks that some of the insights can be included in the analysis

of the current measurement bases. Therefore staff does not favor retention of the deprival value model in the final chapter.

Matter(s) for Consideration

5. The IPSASB is asked to **indicate** whether they support the Staff view that the deprival value model should not be retained in the core text, but that some of the insights provided by the model should be used in section 3.

Specific Matter for Comment 4): Liabilities

42. Section 5 of CF–ED3 proposed five measurement bases for liabilities: historical cost, market value, cost of release, assumption price and cost of fulfillment. Respondents were asked whether they agreed with these measurement bases and, if appropriate, to identify additional measurement bases or measurement bases that should not be included.
43. 17 of the 33 respondents expressing a view supported the proposed measurement bases (001, 002, 004, 009, 010, 012, 013, 016, 017, 020, 021, 023, 025, 026, 029, 030 & 034). Respondent 013 commented that the discussion of the transfer of a liability under the cost of release model in paragraph 5.9 was more related to recognition than to measurement. Staff largely agrees with this point and proposes that some of the material in that paragraph should be deleted or moved to the Basis for Conclusions.
44. Eight respondents partially agreed with the proposed measurement bases. (005, 007, 008, 011, 019, 022, 031 & 037). Respondent 008 disagreed with cost of assumption, but did not provide a reason. This respondent also found the table providing corresponding asset terminology unclear and unnecessary. Staff agrees with this point and proposes the deletion of the table from the finalized chapter.
45. Eight respondents disagreed with the proposed measurement bases. Respondents 003, 006 and 028 033 035 and 036 all opposed the omission of fair value from the proposed measurement bases and advocated the use of fair value as defined in IFRS 13. Respondent 036 also found the discussion of market value inconsistent with the definition of market value in section 3. Staff agrees with this view and considers that the definition of market value should be modified to include a reference to transfer rather than settlement of a liability.
46. Respondent 022 expressed reservations about cost of release. Respondent 027 considered that cost of release is underpinned by the objective of selecting a resource-efficient ethos that does not take into account sufficiently that the primary objective of public sector entities, especially international public sector organizations, is service delivery. Respondent 032 advocated the measurement of liabilities at cost in order to avoid “procyclical” consequences. Staff accepts that cost of release (and assumption price) are unlikely to be feasible in many public sector circumstances. This was acknowledged in paragraph BC31 of the Basis for Conclusion, which said that cost of fulfillment will often be the only practical and relevant measurement basis for liabilities arising from non-exchange transactions. Staff thinks that it might be worth relocating this point to the core text. Staff thinks that, consistent with the overarching approach, measurement bases should be selected to meet the information needs of users and not constrained by speculative judgments as to their public policy implications.

47. Staff considers that the measurement bases in section 5 should be retained, but consistent with the approach for assets consideration should be given to using fair value when it has been decided that an exit based market value is appropriate but the market is not open, active and orderly.

Matter(s) for Consideration

6. The IPSASB is asked to **indicate** whether they support the Staff view that historical cost, market value, cost of fulfillment, cost of release and assumption price should be retained and whether, consideration should be given to adopting fair value, as defined in IFRS 13, when a market value is appropriate but the market is not open, active and orderly.

Other Issues

48. This section briefly covers some other issues that Staff consider highly significant:
- Consistency with drafting style of Phase 2;
 - Valuation of assets on standalone basis or on the basis that they will be used in conjunction with other assets/liabilities; and
 - Other Cost-Based Measures
49. Respondent 010 commented that the drafting style of CF–ED3 differs from CF–ED2. In the view of Respondent 010 the style is similar to that of a Consultation Paper as it discusses 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. Respondent 010 found the discussion helpful but considered that it may be inappropriate for the Framework itself and suggested that drafting should be refined and made more precise and succinct. Staff agrees with this point and will refine the drafting approach as a final chapter is developed.
50. Respondent 028 suggested that there should be some guidance on whether values should be determined on a stand-alone basis or on the basis that they are being used in conjunction with other assets. Staff agrees that this issue should be considered.
51. Respondent 028 considered that the Framework should address income-based present value valuation approaches including the application of discounted cash flow techniques. In IFRS 13 the income approach is a valuation technique to estimate fair value by converting future cash flows to a current discounted value. The IASB materials for the section of the forthcoming Discussion Paper include consideration of the fair value measurement of an asset or a liability using a present value technique for cash flows and the factors that such techniques should reflect. The IASB has also discussed other non-fair value measurement methods based on estimated future cash flows, which include areas such as provisions, liabilities for post-employment benefits, the net realizable value of inventories and impairment of non-financial assets. Staff does not think that the Framework needs to go into much detail on these areas, but does think that such cash flow based techniques need to be acknowledged.

Matter(s) for Consideration

7. The IPSASB is asked to **indicate** whether they support the Staff view that the issues of (i) the valuation of assets on a standalone/group basis and (ii) cash flow based techniques should be further considered at the September meeting and that the drafting approach in CF–ED3 should be refined as the final chapter is developed.

Agenda Item 2B.2

STAFF SUMMARY OF RESPONSES TO CONCEPTUAL FRAMEWORK EXPOSURE DRAFT 3, CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

Note: This paper includes extracts of each response received to CF–ED3 which have been grouped to identify respondents' views on the Specific Matters for Comment (SMCs) set out in CF–ED3 as well as the key issues identified by staff. In some cases, an extract may not do justice to the full response. This analysis should therefore be read in conjunction with the submissions themselves.

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List of Respondents:

Response #	Respondent Name	Country	Function
001	Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA)	USA	Preparer
002	Wellington City Council	New Zealand	Preparer
003	Victoria University of Wellington	New Zealand	Preparer
004	The Institute of Chartered Accountants of Nigeria (ICAN)	Nigeria	Member or Regional Body
005	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
006	APV Valuers and Assets Management	Australia	Other
007	Public Sector Accounting Board (PSAB, from staff)	Canada	Standard Setter/Standards Advisory Body
008	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
009	Fédération des Experts Comptables Européens (FEE)	International	Member or Regional Body
010	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
011	New Zealand Accounting Standards Board (XRB)	New Zealand	Standard Setter/Standards Advisory Body
012	Association of Chartered Certified Accountants (ACCA)	International	Member or Regional Body
013	KPMG IFRG Limited	International	Accountancy Firm
014	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
015	Instituut van de Bedrijfsrevisoren Institut des Reviseurs d'Entreprises (IBR-IRE)	Belgium	Member or Regional Body
016	Swedish National Financial Management Authority (ESV)	Sweden	Standard Setter/Standards Advisory Body
017	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
018	Cour des Comptes	France	Audit Office
019	Province of Manitoba	Canada	Preparer
020	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body

Staff Summary of Responses to Conceptual Framework Exposure Draft 3
IPSASB Meeting (June 2013)

Response #	Respondent Name	Country	Function
021	Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
022	The Institute of Chartered Accountants of Jamaica	Jamaica	Member or Regional Body
023	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
024	University of Tampere, School of Management	Finland	Other
025	Wales Audit Office	UK	Audit Office
026	Zambia Institute of Chartered Accountants	Zambia	Member or Regional Body
027	Task Force on Accounting Standards, United Nations System	International	Preparer
028	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
029	Denise Silva Ferreira Juvenal	Brazil	Other
030	Ministry of Finance of Ontario	Canada	Preparer
031	Abu Dhabi Accountability Authority	United Arab Emirates	Audit Office
032	Direction Générale des Finances Publiques (DGFIP)	France	Preparer
033	Malaysian Institute of Accountants	Malaysia	Member or Regional Body
034	European Commission	Europe	Preparer
035	Joint Accounting Bodies	Australia	Member or Regional Body
036	Ernst & Young	International	Accountancy Firm
037	The Committee on Accounting for Public Benefit Entities (CAPE) of the Financial Reporting Council (FRC)	UK	Standard Setter/Standards Advisory Body

Staff Summary of Responses to Conceptual Framework Exposure Draft 3
IPSASB Meeting (June 2013)

R #	GENERAL COMMENTS	STAFF COMMENTS
001	<p>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.</p> <p>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.</p>	<p>View that Framework should not identify a single measurement basis is noted. This is in line with approach in CF–ED3.</p>
002	<p><i>No General Comments Noted.</i></p>	
003	<p>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.</p> <p>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.</p>	<p>Staff notes view that a measurement objective should be stated. Alternative View proposes such a measurement objective. There is a gulf in arguments and views between those favoring a clearer measurement objective based on a specific measurement basis or group of measurement bases and adherents of historical cost who favor the proposed approach of a more general objective.</p> <p>Staff considers that any decision to re-expose CF–ED3 is premature at present.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>
004	<p><i>No General Comments Noted.</i></p>	
005	<p><i>No General Comments Noted.</i></p>	

R #	GENERAL COMMENTS	STAFF COMMENTS
006	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p><i>From pages 5 to 21 of response 006 – a detailed point by point set of comments were provided on the exposure draft. Please see response 006 for full details.</i></p>	<p>Strong opposition to overall approach noted in particular view that CF–ED3 based on UK centric -approach is noted, particularly in relation to deprival value. The Deprival Value model used in Australia has adopted a “highest and best approach” to replacement cost rather than the “optimized approach” adopted in the ED.</p> <p>Strong support for fair value as defined in IFRS13, <i>Fair Value Measurement</i> is noted. The definition of fair value in IFRS 13 is explicitly an exit value: <i>The price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date.</i> IFRS 13 identifies the cost approach as a valuation technique to reflect an amount that would be required currently to replace service capacity and indicates that this technique is often referred to as current replacement cost. The IPSASB considered that exit values are of questionable suitability for operational assets in the public sector and therefore decided to propose replacement cost as a measurement basis in its own right rather than as a valuation technique for estimating fair value.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>
007	<p>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.</p> <p>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.</p> <p>Given the scope of the broader undertaking to develop a new conceptual framework,</p>	<p>Staff supports the view that a clearer measurement objective similar to that in the Alternative View would be beneficial. However, the gulf between those respondents who primarily favor historical cost and those favoring fair value or current value based measures does not make this straightforward.</p> <p>The output from Phases 1 -4 will be considered in 2014 and Staff thinks that a full agenda item should be devoted to ensuring that linkages are thorough and</p>

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>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.</p> <p>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.</p>	<p>consistent.</p> <p>CF–ED3 did not go down the route of clearly distinguishing approaches for financial and non-financial assets, although this is implicit in some of the analysis. Staff considers that a high-level, but more detailed consideration of when cost-based and market values are appropriate for financial assets is appropriate.</p>
008	<p>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.).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Status of the Framework is stated in Chapter 1, <i>Role and Authority of the Conceptual Framework: The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs or RPGs. Authoritative requirements relating to the recognition, measurement and presentation of transactions and other events and activities that are reported in GPFRs are specified in IPSASs.</i></p> <p>Strong support for historical cost is noted.</p>
009	<p>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").</p> <p>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</p>	<p>View that Fair Value and Deprival Value models inappropriate noted.</p> <p>Support for approach that Conceptual Framework should not be an IFRS convergence project or an interpretation of the application of the IASB Conceptual Framework to</p>

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>on public sector specific issues or updating IFRS converged standards.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>the public sector noted.</p> <p>Staff notes the reservations about the suggestion of supplementary disclosures. Agrees that the requirement for additional disclosures should be a standards-level decision taking into account needs of users, qualitative characteristics and the cost-benefit constraint, but thinks that the need for such disclosures is worth mentioning in the Framework, which will guide IPSASB to consider whether such disclosures are appropriate at standards level.</p>
010	<p>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.</p> <p>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.</p>	<p>Noted and agree. Current style is too discursive. In finalizing the Measurement chapter style should be terser and more precise as suggested. Certain explanatory material could be moved to the Basis for Conclusions.</p>
010.1	<p><i>From pages 11 to 13 of response 010 – detailed specific comments on various points in the exposure draft have been provided in addition to the feedback on the SMC's. Please see response 010 for full details.</i></p>	<p>Noted</p>
011	<p>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</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project</p>

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>frameworks do not provide much guidance.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Primary concerns</p> <p>The NZASB's primary concerns with the proposals in the ED relate to:</p> <ol style="list-style-type: none"> 1. the absence of an overall measurement objective; 	<p>Staff accepts that whether an entity is estimating a market value in an inactive or active market, the measurement objective is still the same. However, the observable/non-observable distinction is useful and should be retained. Where a market is inactive and non-observable inputs have to be used to establish a market value (or fair value) the relevance and understandability of such measures may be questionable. Staff also agrees with the view that</p> <p>The Consultation Paper published in 2010 provided a rationale for a mixed measurement approach: <i>It is not expected that the IPSASB Framework will identify a single measurement basis that is appropriate in all circumstances. Such a single approach might be thought to be ideal, as the relationship between various amounts reported in the financial statements would be clear: in particular, the amounts of different assets and liabilities could be added to provide meaningful totals. However, there is no single measurement basis that is appropriate in all circumstances. For example, in financial statements prepared on a historical cost basis, it is necessary to write down surplus or obsolete assets to net selling price;</i></p>

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>2. the use of 'fair value' as a measurement method rather than a measurement base; and</p> <p>3. specific aspects of some proposed measurement bases.</p> <p>Absence of a measurement objective</p> <p><i>Need for a measurement objective</i></p> <p>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.</p> <p>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).</p> <p>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.</p> <p>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.</p> <p><i>Development of a measurement basis</i></p> <p>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:</p> <ol style="list-style-type: none"> 1. Financial capacity; 2. Operational capacity; and 3. The cost of services provided in the period. <p>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</p>	<p><i>if financial statements are prepared on a market value basis, substitutes will be required for those assets and liabilities for which market values are unavailable. It is also necessary to select different measurement bases in different circumstances to achieve an appropriate balance, or trade-off, between the qualitative characteristics."</i></p> <p>Staff notes view that a clearer measurement objective should be stated. Alternative View proposes such a measurement objective. There is a gulf in arguments and views between those favoring a clearer measurement objective based on a measurement basis or group of measurement bases and adherents of historical cost who support the approach in CF–ED3 or favor a more general objective not lined to measurement basis(es)</p> <p>Support for deprival value for operational assets is noted.</p> <p>View that fair value should be a measurement basis is noted. Staff notes comments on definition of fair value in IFRS 13. It is not the intention in either CF–ED3 or other phases of the Framework project to adopt IFRS definitions as a matter of course.</p> <p>Staff notes the standards-level issues that might arise on consolidation of GBEs if future IPSASs deviate from</p>

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>measurement objective of fairly reflecting financial capacity.</p> <p>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.</p> <p>Comments on specific measurement bases and models</p> <p><i>Fair value: Measurement base or measurement model</i></p> <p>We consider 'fair value' to be a measurement <u>base</u> rather than a measurement <u>model</u>. The 'fair value model' discussed in paragraphs 4.5-4.8 of the ED represents a measurement <u>model</u> as distinct from a measurement <u>base</u>.</p> <p>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 <i>Fair Value Measurement</i>. 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.</p> <p>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.</p> <p><i>Market value of liabilities</i></p> <p>We consider the discussion of market value in the context of liabilities to be confusing and inconsistent with other parts of the ED.</p> <p>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</p>	<p>IFRS on the same topic. This important issue has been raised separately by this respondent as an issue in IPSAS adoption.</p> <p>The rationale for not defining both market value and fair value as measurement bases is that the two are very similar and using both terms in standard setting may be confusing for users. Because of its nature as an explicit exit value the definition in IFRS 13 might not be appropriate in the public sector. This leads to the possibility that IPSASB might define fair value differently to IASB, which would be confusing.</p> <p>Support for deprival value basis in context of operational capacity noted.</p>

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>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.</p> <p>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 fulfillment 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).</p> <p>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.</p> <p><i>Deprivation value</i></p> <p>The ED states that deprivation 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 deprivation 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 deprivation 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.</p> <p>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 deprivation 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). 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.</p>	<p>Staff agrees that in the context of market value for liabilities "transfer" is a more appropriate word than "settlement".</p> <p>Staff agrees with view that discussion on deprivation value in Section 4 would be better treated as standards level or moved to the Basis for Conclusions.</p> <p>Staff accepts the view that in such circumstances net selling price may indicate a development or redeployment opportunity. Staff agrees that this area should be explored by Staff and considered in more detail for the September meeting.</p>

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>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.</p> <p>We recommend changing the definition of recoverable amount (in paragraph 4.11 of the ED) to that adopted in IPSAS 21 <i>Impairment of Non-Cash-Generating Assets</i> and IPSAS 26 <i>Impairment of Cash-Generating Assets</i>, 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.</p> <p>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.</p>	<p>Preference for a definition of recoverable amount based on "fair value less costs to sell" rather than "net selling price" is noted. Fair value was not proposed as a measurement basis, so it would have been illogical to have described recoverable amount using a measurement basis that was not proposed.</p> <p>Given the different interpretations of replacement cost this suggestion should be considered.</p>
011.	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Noted. Fair value not proposed as a measurement basis because of its similarity to market value. Staff considers that where market is open, active and orderly market value will be an entry value as well as an exit value.</p> <p>A market value that is lower than carrying amount might be an indicator of an impairment. However, as indicated by the respondent the value in use of an asset might be higher than market value in which case there would not be an impairment. Staff agrees that the statement should be explained better and made less absolute.</p> <p>Paragraph 3.15 refers to market values where the market is open, active and orderly As stated in that paragraph "under such market conditions entry and exit values can be assumed to be the same or very similar". Paragraph 3.15 should be read in conjunction with paragraph 3.16.</p>

Staff Summary of Responses to Conceptual Framework Exposure Draft 3
IPSASB Meeting (June 2013)

R #	GENERAL COMMENTS	STAFF COMMENTS
012	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).	Noted
013	<p>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.”</p> <p>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.</p> <p>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.</p> <p>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?</p>	<p>Staff agrees that the term operational assets should be defined and agrees with the suggestion.</p> <p>Staff acknowledges this point, but considers that market value and other current value measurement bases provide faithfully representational information on the current cost of services and that this information is relevant for users</p> <p>Staff thinks that there is a linkage in the discussion in paragraph 5.9 with both the definition of a liability and derecognition. However, the discussion is necessary to distinguish cost of release from an agreement with another party that will fulfil the entity’s obligation.</p>
014	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.	Noted. Staff supports the view that a clearer measurement objective similar to that in the Alternative View would be beneficial. However, the gulf between those respondents who primarily favor historical cost and those which favor fair value or current value based measures does not make this straightforward.
015	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	The ED proposes measurement bases that are aligned with user needs rather than a single measurement basis.

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>applicable in this ED.</p> <p>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.</p> <p>The ED lacks a number of examples, which can improve their readability and understandability.</p>	<p>The issue of examples has been raised by a number of respondents. While examples can elucidate issues a widespread use of examples can distract from high level concepts and infringe on standards-level issues.</p>
016	<p><i>No General Comments Noted.</i></p>	
017	<p>General comment</p> <p>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.</p> <p>Selection of measurement bases during standard setting and in financial reporting</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>A suitable objective might be along the lines of</p> <p><i>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.</i></p> <p>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</p>	<p>View that material on fair value model and deprival value is standards level noted. Staff does not think that this section should be retained in the finalized Framework although some of the material might be moved to section 3 or the Basis for Conclusions.</p> <p>Staff notes the proposed measurement wording. This broadly restates the current approach in terms of a measurement objective. Staff considers that any objective should refer to the QCs and that any reference to cost of a measurement basis should come after references to the objectives and QCs.</p> <p>Staff agrees that the purpose for which an asset is being used is relevant in determining a measurement basis. The discussion in the ED of financial capacity and</p>

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	<p>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.</p>	<p>operational capacity was meant to reflect this.</p>
018	<p>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.</p> <p>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.</p> <p>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.</p> <p>They mainly focus on the following points:</p> <ul style="list-style-type: none"> (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 cans 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. 	<p>Staff notes the comments on “production costs”. Staff considers that there should be an acknowledgment that historical cost can be applied to self-constructed assets. The detail on the items of production cost that qualify for inclusion in historical cost is a standards-level issue. Staff does not consider that “production cost” is a separate measurement basis.</p> <p>Staff considers that generally historical cost is an entry basis because it reflects the consideration payable (or receivable) for the acquisition (or assumption) of an asset (or liability). Where an asset is transferred to an external body at nil or nominal cost its carrying amount would be derecognized by the transferor. Where assets are acquired in non-exchange transactions an approach to estimating historical cost needs to be determined. This is best considered at standards level.</p>
019	<p>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 <i>ED 2 – Elements and Recognition in Financial Statements</i> 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</p>	<p>CF–ED3 avoided detail on specific situations because the IPSASB considered that this is a standards-level issue. It did not propose fair value as a measurement basis on grounds that it duplicated market value (numerous other respondents were highly critical of the fact that fair value was not proposed). The comments on the likelihood that future IPSAS will recommend or permit</p>

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	<p>accounting period.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>the fair value measurement of assets and liabilities far beyond what is currently permitted under Canadian public sector accounting standards are speculative and not linked to the proposals in CF–ED3.</p> <p>Staff considers that the issue of the treatment of unrealized gains and losses is primarily related to the definitions of revenue and expenses in Phase 2 and because of its implications for presentation: Phase 4.</p> <p>The basis on which the budget is prepared is a consideration in selecting a measurement basis. However it should not be an overriding factor in selection of a measurement basis where a more relevant and faithfully representative measure is available.</p>

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020	<p>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 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.</p> <p>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.</p>	<p>Staff considers that because the main objective of governments and public sector entities is to deliver services rather than to generate profits exit values often may not provide relevant information.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>The output from Phases 1 -4 and the linkages between the phases will be considered in 2014. Staff thinks that a full agenda item should be devoted to linkages.</p>
021	<p>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.</p>	Noted.
022	<i>No General Comments Noted.</i>	
023	<p>With regard to the statement in paragraph 2.7 that "Historical 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.</p>	<p>Staff acknowledges this point. In these circumstances it is possible that recoverable amount will be lower than historical cost and that an impairment loss will be recognized.</p>
024	<i>No General Comments Noted.</i>	
025	We welcome the next stage of the development by IPSASB of its conceptual framework,	Support for limitation of scope to general purpose

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	<p>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.</p> <p>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.</p>	<p>financial statements is noted.</p> <p>View that ED is too discursive is noted. Staff agrees and the ED text will be made more succinct in process of developing a finalized Chapter of Framework.</p> <p>Staff largely agrees with the view that Section 4 is too detailed. Staff does not favour retention of this section in finalized chapter. Some of the material in the fair value model section could be retained and brought forward to Section 3 as an explanation of how market value can be derived where a market is inactive.</p>
026	<p>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.</p>	<p>Noted.</p>
027	<p>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.</p>	<p>Noted. In progressing CF-ED3 to a final chapter the Coordinator will seek to ensure that the tone of the narrative is not over focused on central government level.</p>
028	<p>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.</p> <p>In this regard, HoTARAC offers the following overall comments.</p> <p><u>Preferred Measurement Basis</u></p> <p>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</p>	<p>Staff notes view that CF-ED3 has reflected respondent's comments on Consultation Paper. Staff acknowledges views on articulating an ideal measurement basis. Staff does not agree that an exit value such as fair value as defined by IASB in IFRS 13 is appropriate and further notes that there is a gulf in arguments and views between those favoring a clearer measurement objective based on a measurement basis (or group of measurement bases) and adherents of historical cost who favor a more general approach or an objective</p>

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	<p>comparability between entities and across jurisdictions.</p> <p>In this respect, HoTARAC believes the most appropriate ideal measurement basis should be “fair value”, as defined in IFRS 13 <i>Fair Value Measurement</i>. This is further explained in response to Specific Matter for Comment 3(a).</p> <p><u>IFRS Conceptual Framework</u></p> <p>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.</p> <p>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.</p> <p><u>GFS Convergence</u></p> <p>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.</p> <p><u>Alignment with Current IPSASs</u></p> <p>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</p>	<p>based on the objectives of financial reporting.</p> <p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project. Staff notes that, apart from chapters on objectives of financial reporting and qualitative characteristics published in 2010 the current IASB Framework is over 20 years old and contains only three paragraphs on Measurement. The IASB Discussion Paper that will be issued in July 2013 will include a full chapter on Measurement.</p> <p>Staff notes these views, but considers that selection of a measurement basis should primarily be based on the extent to which that measurement basis meets the objectives of financial reporting and the QCs. Elsewhere IPSASB has reinforced its commitment to alignment with statistical accounting where appropriate and the draft Preface discusses statistical accounting guidelines.</p>

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	<p>example, IPSAS 17 <i>Property, plant and equipment</i> and IPSAS 31 <i>Intangibles</i> include a number of references to fair value.</p> <p>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.</p>	<p>Following completion of the Framework IPSASB will identify dislocations between existing literature and the Framework and a phased approach to redressing such differences will be determined on a prioritized basis.</p>
029	<p><i>No General Comments Noted.</i></p>	
030	<p>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:</p> <ul style="list-style-type: none"> 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). <p>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.</p> <p>During PSAB's project on financial instruments, governments raised concerns with the</p>	<p>Strong preference for historical cost is noted. CF-ED3 did not propose removal of historical cost and gave considerable weight to this measurement basis. Section 2 was devoted to it.</p> <p>Views on unrealized gains and losses noted. These views echo Respondent 019.</p> <p>Staff notes the comments on the generally conservative nature of public sector financial management in Canada. Staff does not think that this can be considered universal. For example, globally there are examples of public sector entities that have exposures to complex financial instruments such as derivatives; Staff has reservations whether historical cost can be considered to provide the most relevant and faithfully representative information for many financial assets, especially those available for sale or with variable returns. Staff agrees that a cost-based</p>

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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>	<p>measure may provide the most relevant information for financial instruments held to maturity or to realize contractual flows that are in accordance with stated terms and not variable.</p>

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	Notes to the Financial Statements on the basis that such notes are integral to the financial statements and provide significant information to users.	
031	We consider the most significant issue that Government and PSEs face is legacy, with the aim of improving legacy over the long-term.	Noted.
032	<p>Indeed, Conceptual Framework defines the structuring principles of public sector accounting standards. Consequently, it encompasses four parts related respectively to:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>Investors and lenders are also users of financial statements. Their primary need is to assess the ability of public entities to honour their debts.</p> <p>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.</p> <p>Hence, information provided by financial statements is essential for the understanding and the decision-making of their users.</p> <p>The measurement methods must fulfil these multiple objectives.</p> <p>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.</p> <p>Nevertheless, many assets used to deliver public services are specialised.</p> <p>The “specialised” nature of that public service assets arises from their specific characteristics related to:</p> <ul style="list-style-type: none"> • 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 	<p>Staff notes the view on primary users. The identification of primary users has been addressed in Phase 1.</p> <p>CF-ED3 gave considerable emphasis to the public sector characteristic that many assets are specialized and are held for their operational capacity. The proposal to include replacement cost as a measurement basis in its own right rather than as a valuation technique to estimate fair value reflects this.</p>

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	<p>specialised assets provide.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>In French central government financial statements, these alternative methods apply mainly to:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p> <p>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.</p>	<p>Staff does not think that the use of symbolic or nominal values reflects a measurement basis. The main issues on heritage and cultural assets are whether such items met the definition of an asset and, if so, whether they meet recognition criteria, particularly whether they can be measured in a manner that is sufficiently relevant and faithfully representative.</p>

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	<p>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.</p> <p>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.</p>	<p>Staff disagrees with the assertion that all liabilities must be measured at historical cost. The measurement basis should reflect the character of the financial liability.</p>
033	<p>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 (GPFRs) who read financial reports across public and private sectors.</p> <p>Generally, in many parts of the world and specifically in Malaysia, both preparers and auditors of the GPFRs 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.</p> <p>The <i>Preface to International Public Sector Accounting Standards</i> 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.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>
034	<p><i>No General Comments Noted.</i></p>	
035	<p>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</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p>

R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Support for Alternative View is noted. As indicated in Staff Comments on Respondent 002 there is a gulf in arguments and views between those favoring a clearer measurement objective based on a measurement basis and adherents of historical cost who favor a more general objective. This reflects the divergence of views within the IPSASB.</p>
036	<p>General comments</p> <p>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 <i>Elements and Recognition in Financial Statements</i>, 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.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project.</p> <p>Support for entry/exit and entity/non-entity specific classification noted.</p> <p>Staff notes that the objective in CF-ED3 is based on the objectives and QCs. Respondent's support for Alternative View is noted.</p> <p>Staff notes the disagreement with disclosures for items</p>

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R #	GENERAL COMMENTS	STAFF COMMENTS
	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>carried at historical cost. Staff agrees that detailed disclosures should be developed at standards level, but thinks that an allusion to disclosure is helpful.</p>
037	<p>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.</p>	<p>See Agenda Paper 2.1 for discussion of relationship with IASB Framework project</p>
037.1	<p>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.</p> <p>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</p>	<p>Positive comments about Alternative View noted. Staff supports comments on historical cost and decision-making.</p>

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	<p>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</p> <p>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.</p>	

Specific Matter for Comment (SMC) 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.

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 002, 004, 005, 006, 008, 009, 012, 017, 019, 021, 026, 029, 033, 034,	15
B – PARTIALLY AGREE	003, 011, 013, 016, 020, 022, 023, 025, 027, 028, 032, 035, 037	13
C – DISAGREE	007, 010, 018, 024, 030, 031, 036,	7
SUB-TOTAL OF THOSE PROVIDING COMMENTS		35
D – DID NOT COMMENT	014, 015	2
TOTAL RESPONDENTS		37

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
001	A	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.	Noted
002	A	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.	Noted
003	B	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-	Staff notes support for selection of a measurement basis based on the extent to which a particular measurement basis meets the objectives of financial reporting but also view that a more precise

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		<p>making purposes.”)</p> <p>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.</p> <p>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.</p> <p>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.</p>	measurement objective is necessary.
004	A	We agree.	Noted
005	A	<p>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).</p>	Support for mixed-measurement approach is noted.
006	A	<p>Yes</p> <p>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.</p> <p><u>The objective is to provide information to users that is useful for making and evaluating decisions about the allocation of scarce resources.</u></p>	Staff notes that the quote from SAC2 primarily relates to decision making. Subsequent comments indicate support for accountability objective, although subsumed within decision making.

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 1</p>	STAFF COMMENTS
		<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	
007	C	<p>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.</p>	<p>Support for measurement objective in Alternative View noted.</p>
008	A	<p>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</p>	<p>Staff notes the general support for the view that a measurement basis should be</p>

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		<p>characteristics. In this respect, the measurement bases used must conform to the principles of comparability, clarity and consistency.</p> <p>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.</p> <p>However, the Council believes that elements (e) and (f) of paragraph 1.3, 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.</p>	<p>based on the extent to which a particular measurement basis meets the objectives of financial reporting.</p> <p>Staff notes the view that the extent to which a measurement basis contributes to assessments of the adequacy of taxes and income to maintain volume and quality of services and whether resources have been used economically and efficiently should be outside the scope. Staff considers that assessments of fiscal sustainability and efficient and effective use of resources are likely to use information from the financial statements and that this should be reflected in the Framework.</p>
009	A	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • Financial capacity, • Operational capacity, and • Cost of service provided. <p>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.</p>	<p>Support for approach in Section One and mixed measurement approach noted.</p>

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
010	C	<p>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.</p> <p>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.]</p> <p>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.</p>	<p>The discussion on the fair value model in Section 4 was intended to support the analysis in Section 3. The fair value model suggests an approach to determining market value where it has been decided that market value is the appropriate measurement basis, but there is an inactive market. It was therefore not necessary to include sub-sections on financial capacity, operational capacity and the cost of services in section 4. However, Staff does not think that Section 4 should be retained in the finalized chapter on Measurement.</p> <p>Support for Alternative View noted.</p>
011	B	<p>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.</p> <p>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.</p>	<p>Support for measurement objective in Alternative View noted.</p>
012	A	<p>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.</p>	<p>Support for approach in Section 1 and mixed measurement approach noted.</p>
013	B	<p>We generally agree that the selection of a measurement basis should be based on the extent to which a</p>	<p>Qualified support for approach in Section</p>

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		<p>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.</p> <p>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.</p> <p>Paragraph 3.5 should be expanded to include a definition of an active market similar to that provided in Appendix A of IFRS 13.</p>	<p>1 noted.</p> <p>Staff acknowledges that there may be circumstances where net selling price will not be observable. Generally Staff considers that, although entity specific, net selling price will generally be observable. Paragraph 3.2 of CF-ED3 did acknowledge that judgement is necessary in determining whether a measurement basis is observable or non-observable.</p> <p>Staff notes view that paragraph 3.5 should be expanded to provide a description of an active market. The definition of an active market in IFRS 13 is: <i>a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.</i></p> <p>The definition of an open, active and orderly market in paragraph 3.5 of Section 3 is more detailed than the IFRS definition and consistent with it.</p>
014	D	<i>No comment noted.</i>	
015	D	<i>No comment noted.</i>	
016	B	<p>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</p>	<p>Support for mixed measurement approach and need for additional disclosures noted. Staff does not agree that replacement cost is not relevant for</p>

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		<p>management differs over the world and between types of entities, it may be necessary to differ in selection between entities.</p> <p>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.</p> <p>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.</p>	<p>central government entities. Replacement cost can provide information useful for decision-making regardless whether the reporting entity is dependent on a controlling entity or other entities for capital funding.</p>
017	A	<p>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.</p> <p>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.</p> <p>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:</p> <p><i>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.</i></p> <p>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.</p>	<p>Support noted. See Staff Comments in General Comments section on proposal for a measurement objective.</p> <p>Staff interprets the comments on the nature of an asset as broadly consistent with the discussion on financial capacity and operational capacity.</p>

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
018	C	<p>The Cour des Comptes notes that in his alternative view, M. Ken Warren gives also an interesting definition of the measurement objective, mentioning it aim to be useful to decision makers and account holders, that could be helpful at the conceptual framework level.</p> <p>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.</p>	<p>There was considerable debate in Phase 1 about the appropriateness of including prudence as a QC. The Basis for Conclusions of Chapter 3 explains that: <i>the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.</i></p>
019	A	<p>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.</p> <p>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.</p>	Noted.
020	B	<p>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</p>	<p>Noted view that material in BC 5 should be brought forward into core text. Staff agrees with this proposal. It might also be worth considering the introduction of a principle that the measurement basis should not be changed unless the change leads to more relevant and faithfully</p>

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
		material in BC 5 might usefully be moved forward.	representative measure.
021	A	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.	Noted
022	B	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. Value in use would be relevant to assessments of impairment and other limited relevant cases.	Support for view 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 noted. Staff also notes supplementary view that measurement objective should be based on a current measurement value
023	B	We agree with the proposal. However, for further clarification, we suggest that the statement in paragraph 1.3 of the CF-ED3 – “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:” – 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.	Staff notes the view that references to (d) the capacity of the entity to adapt to changing circumstances, (e) the adequacy of current levels of taxes and other income to maintain the volume and (f) quality of services currently provided and whether resources have been economically and efficiently should be moved to Basis for Conclusions. Staff considers that assessments of fiscal sustainability and the efficient and effective use of resources are likely to use information from the financial statements and that this should be reflected in the Framework.

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R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 1</p>	<p style="text-align: center;">STAFF COMMENTS</p>
024	C	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>The ED proposed fair value as a measurement basis rather than market value. Staff acknowledges the view that historical cost and entry values are appropriate for public sector entities, but does not think that they provide the most relevant and faithfully representative measures of all transactions and events, which is why a mixed measurement approach was proposed</p> <p>Support for an income (revenue and expenses-led) approach .noted.</p>

R#	C #	RESPONDENT COMMENTS SMC 1	STAFF COMMENTS
025	B	<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 GPFs of public sector entities and the cost of measurement, provides the most useful information for accountability and decision making purposes'.</p>	View that a clearer measurement objective is appropriate is noted.
026	A	<p>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.</p>	Noted
027	B	<p>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.</p> <p>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</p>	<p>Operational capacity and financial capacity are interlinked and should not be considered as incompatible.</p> <p>Staff acknowledges that in the public sector many assets will be held for their operational capacity. This is reflected in the proposal in Section 1 that the ability of a measurement basis to provide information enabling an assessment of operational capacity is important in selecting a measurement basis.</p> <p>However, certain assets and liabilities affect the capacity of an entity to continue to fund its activities and meet its operational objectives. The section of the Framework on measurement must propose appropriate measurement bases</p>

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		<p>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.</p> <p>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.</p>	for such assets and liabilities.
028	B	<p>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.</p> <p>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.</p>	Staff notes the view that there should be a measurement objective in order to provide a conceptual ideal.
029	A	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.	Noted
030	C	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.	Staff notes support for historical cost, but considers that other measurement bases also provide information relevant for decision making and accountability purposes.
031	C	<p>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:</p> <ul style="list-style-type: none"> • Government accounting concerns legacy and because government accounting is 	Support for clearer measurement objective noted.

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		<p>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.</p> <ul style="list-style-type: none"> 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. <p>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.</p>	
032	B	<p>We consider that measurement methods have to meet:</p> <ul style="list-style-type: none"> 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). <p>The measurement of conceded assets serves as a case in point. Indeed, the use of these assets generates the both natures of economic benefits:</p> <ul style="list-style-type: none"> Service potential to the public entity, and Cash flows (operators get royalties from the users of conceded asset) of the operator. <p>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:</p> <ul style="list-style-type: none"> 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. 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; <p>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</p>	<p>Staff notes the point that a measurement basis should be selected to meet the objectives of the financial statements is consistent with the views expressed previously on the scope of financial reporting. Considers that the detailed consideration of assets in service concession arrangements is a standards level issue</p>

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		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	
033	A	We agree on the Specific Matters for Comments raised in the Exposure Draft other than Specific Matter for Comment 2, 3(b) and 4 as detailed below.	Noted
034	A	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	Noted, especially view that measurement objective is unnecessary.
035	B	<p>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.</p> <p>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.</p>	Staff notes the agreement 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, but also the support for clearer articulation of a measurement objective and support for that outlined in Alternative View
036	C	<p>As mentioned previously in our cover letter, we support the inclusion of a measurement objective as articulated in AV 7:</p> <p>“To select those measurement attributes that <i>most fairly reflect</i> 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]</p> <p>Further, in order to ‘select those measurement attributes that <i>most fairly reflect</i> 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</p>	Support for Alternative View noted.

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		ensure information provided to users is understandable.	
037	B	<p>Yes - we agree that the selection of measurement bases should be based on the extent that they meet the objectives of financial reporting.</p> <p>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.</p> <p>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.</p>	<p>Staff notes the agreement 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, but also support for clearer articulation of a measurement objective.</p>

Specific Matter for Comment (SMC) 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?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 002, 004, 005, 010, 012, 013, 016, 017, 019, 020, 025, 026, 029, 034	15
B – PARTIALLY AGREE	003, 007, 008, 009, 018, 021, 023	7
C – DISAGREE	006, 011, 024, 027, 028, 030, 031, 032, 033, 035, 036, 037	12
SUB-TOTAL OF THOSE PROVIDING COMMENTS		34
D – DID NOT COMMENT	014, 015, 022	3
TOTAL RESPONDENTS		37

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001	A	The FMSB agrees with the current value measurement bases identified in Section 3 of the ED.	Noted
002	A	Yes, we agree with the proposed measurement bases	Noted
003	B	<p>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.</p> <p>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.</p> <p>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</p>	<p>Staff notes the preference for fair value rather than market value.</p> <p>Staff acknowledges this suggestion and considers that it might distinguish the approach in the ED from the "highest and best approach" as indicated by Respondent 006.</p> <p>Staff acknowledges the point that where</p>

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		<p>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).</p> <p>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.</p> <p>We recommend that consideration be given to changing to the definition of recoverable amount (in paragraph 4.11) adopted in IAS 36 <i>Impairment of Assets</i>, 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.</p>	<p>net selling price exceeds replacement cost (on an optimized basis) this may indicate a development opportunity. Staff will explore this point further for the September meeting.</p> <p>The definition of recoverable amount in CF-ED3 reflects the fact that fair value is not proposed as a measurement basis.</p>
004	A	We agree.	Noted
005	A	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.	Noted. Staff acknowledges that value-in-use is not straightforward to determine for non-cash-generating assets. This was highlighted in the preceding Consultation Paper. As noted in CF-ED3 application of value-in-use is limited to cases where it is less than replacement cost, but greater than net selling price. In practice value in use is likely to be most appropriate for the assessment of impairments.
006	C	<p>No</p> <p>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.</p> <p>Inclusion would ensure consistency and harmonisation across the IFRS and IPSASB.</p>	Staff does not advocate a wilful approach to depart from existing IFRS approaches. without sound public sector specific reasons. However, IFRS 13 adopts an

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		<p>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.</p> <p>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.</p> <p>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).</p>	<p>explicitly exit value approach; because many assets in the public sector are held to deliver services rather than to generate cash flows Staff has reservations whether exit bases are appropriate especially for operational assets</p> <p>The Exposure Draft of the Technical Issues Paper (TIP), <i>Valuations of Specialised Public Service Assets</i>, (available from Staff on request) issued by the International Valuation Standards Council in late 2012 discussed some of the issues related to the valuation of specialized public sector assets. In particular the TIP acknowledged the restrictions on many public sector assets. These restrictions may mean that certain opportunities or alternative uses are not available and therefore should not be taken into account when assessing value.</p>
007	B	<p>The list of current value measurement bases is useful and complete.</p> <p>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.</p> <p>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</p>	<p>Reservations about the use of replacement cost in the context of accountability are noted and frequently advanced by supporters of historical cost. Staff agrees with the reservation about the statement in paragraph 3.4 and thinks that, as drafted, it is too limiting.</p>

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		<p>useful for many operational assets.”</p> <p>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.</p> <p>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.</p>	<p>Replacement cost facilitates reporting of the cost of services in current terms. It is accepted that some users may place more emphasis on accountability in relation to specific transactions and therefore favor historical cost.</p>
008	B	<p>The Council agrees with the measurement bases proposed but recommends that the Conceptual Framework be expanded in three areas:</p> <ul style="list-style-type: none"> 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. <p>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.</p> <p>Other measurement bases, such as market value or depreciated replacement cost, can also be used in specific situations or for particular asset categories.</p> <p>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.</p> <p>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</p>	<p>Paragraph 3.4 acknowledged that at initial recognition historical cost and market value will be the same if transaction costs are ignored.</p> <p>Staff is reluctant to introduce a discussion of nominal or symbolic values. Staff does not consider that these are measurement bases. The issue of whether faithfully representative measures of heritage assets can be obtained is primarily a recognition issue related to measurement uncertainty.</p> <p>Staff acknowledges the complexity of value in use, particularly for non-cash-generating assets.</p>

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		<p>is not measurable.</p> <p>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.</p> <p>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.</p>	
009	B	<p>Generally, we agree with the proposed four current value measurement bases, such as market value, replacement cost, net selling price and value in use.</p> <p>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.</p> <p>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.</p>	<p>Staff notes the reservations about the suggestion of supplementary disclosures. Agrees that the requirement for additional disclosures should be a standards-level decision taking into account needs of users, QCs and cost-benefit constraint. However, the need for such disclosures is worth mentioning in the Framework, which will guide IPSASB to consider whether such disclosures are appropriate at standards level.</p>
010	A	<p>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.</p>	<p>Support for approach noted, in particular in relation to fair value. Staff does not agree that fair value (as defined in IFRS 13) is not a measurement basis.</p>
011	C	<p>We recommend the following current value measurement bases:</p> <ol style="list-style-type: none"> 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 	<p>View that fair value should be adopted as a measurement basis noted. As indicated elsewhere Staff has reservations about the definition of fair value in IFRS 13.</p> <p>Staff also considers that the term</p>

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		price be replaced with fair value less costs to sell. 4. Value in use: We agree with value in use as a measurement basis.	"optimized depreciated replacement cost" indicates that the focus of the measurement basis is on the replacement of the service potential embodied in the asset rather than the asset itself.
012	A	We agree with the current value measurement bases for assets as identified in Section 3.	Noted
013	A	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. 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.	Staff disagrees with the view that replacement cost is appropriate when replacement cost is greater than value in use. Under such circumstances the rationale approach, assuming that value in use is higher than net selling price is to continue to use the asset and then dispose of it. The relationship between value in use and replacement cost does demonstrate the complexity of the deprival value model. Staff considers that the current wording of paragraph 3.8 is appropriate. It states that exit-based market values areunlikely to be useful for many operational assets"
014	D	<i>No comment noted.</i>	
015	D	<i>No comment noted.</i>	
016	A	We agree with the current value measurement bases.	Noted
017	A	CIPFA agrees with the proposed current value measurement bases for assets.	Noted
018	B	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.	Staff considers that generally historical

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		<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>cost is an entry basis because it reflects the consideration payable (or receivable) for the acquisition (or assumption) of an asset (or liability). The Consultation Paper issued in 2010 acknowledged that where asserts are donated or acquired in non-exchange transactions strict application of historical cost may not faithfully represent the value of the assets acquired, and it may therefore be necessary to choose an alternative measurement basis as a proxy for historical cost.</p> <p>Where an asset is self-constructed there are issues as to which costs are to be included in the determination of historical cost, including borrowing costs. Such assessments are better made at standards-level.</p> <p>Similarly liabilities do not always arise from transactions or events that give an indication of the cost of settlement or transfer of the obligation.</p> <p>Where an asset is transferred to an external body at nil or nominal cost its carrying amount would be derecognized. As indicated above, entities need to estimate historical cost where assets are acquired in non-exchange transactions.</p> <p>Staff considers that the approach to</p>

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			heritage items is a standards level issue.
019	A	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.	Noted
020	A	We agree with the current value measurement bases for assets that have been identified in Section 3.	Noted
021	B	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.	Staff notes the general agreement with the four current value bases. While entity-specific measures do give rise to issues of comparability and verifiability they need to be considered when the information they provide is relevant and representationally faithful. Chapter 3 of the Framework acknowledges that, in practice, all QCs may not be fully achieved, and a balance or trade-off between certain of them may be necessary
022	D	<i>No comment noted.</i>	
023	B	<p>We generally agree with the use of the current value measurement bases for assets identified in Section 3.</p> <p>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.</p> <p>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.</p> <p>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</p>	The treatment of holding gains is primarily an issue for Phase 2: Elements and Recognition and Phase 4: Presentation. Staff acknowledges that unrealized holding gains can provide budgetary alignment issues and communication challenges. However, Staff does not consider that these challenges should preclude the use of current value measurement bases where such measurement bases provide relevant and

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		basis.	<p>faithfully representative information particularly on the risk exposures of entities.</p> <p>Staff accepts that replacement cost might also inform pricing decisions, but has reservations whether this extends to net selling price or value in use. As indicated elsewhere Staff does not favour the retention of the deprival value model in the core text of the Framework.</p> <p>Staff does not think that paragraph 3.11 should be retained in the final Chapter. It contains is an observation and would be more appropriate in the Basis for Conclusions.</p>
024	C	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.	Staff considers that current value measurement bases should not be limited to financial instruments held for short-term purposes. In fact in such cases historical cost may be an adequate proxy for a current value.
025	A	We agree that the range of current value measurement bases identified in section 3 is complete, balanced and fair.	Noted.
026	A	The Institute agrees with the four proposed current value measurement bases.	Noted.
027	C	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	The ED suggested that replacement cost will often be the most relevant current

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		<p>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.</p> <p>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).</p> <p>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.</p> <p>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.</p> <p>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'</p>	<p>value basis for operational assets. It acknowledged the use of historical cost for operational assets and did not suggest that the adoption of historical cost would be precluded.</p> <p>Staff does not consider that net selling price will be deployed widely. As highlighted in section 4 of CF-ED3 net selling price is likely to be limited to instances where an the service potential or economic benefits provided by an asset are less than the resources generated through its immediate sale.</p> <p>The disadvantages of a mixed measurement approach are acknowledged. However, as indicated in the 2010 Consultation Paper there is no single measurement basis that is suitable in all circumstances.</p>

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		<p>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.</p> <p>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.</p>	
028	C	<p>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.</p> <p>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).</p> <p>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.</p> <p><u>Entry versus Exit prices</u></p> <p>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).</p> <p>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</p>	<p>The strong reservations about the value of historical cost typify the views of many supporters of a measurement objective based on a current value measurement basis or group of bases.</p> <p>Staff notes the view that market value, replacement cost and net selling price are valuation techniques to estimate fair value rather than a measurement bases in their own right as proposed in CF–ED3 and the support for the approach to fair value in IFRS 13.</p> <p>The views of the IASB that is unnecessary to make a distinction between a current entry price and a current exit price where there is a market based measurement objective are noted. However, for specialized assets where the market is inactive it is contestable whether a market based exit value</p>

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		<p>on sale of an asset (paragraph 3.29).</p> <p>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.</p> <p>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.</p> <p><u>Historical cost</u></p> <p>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.</p> <p>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.</p> <p><u>Market value</u></p> <p>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.</p> <p><u>Replacement cost</u></p> <p>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 sub-section dealing with replacement cost.</p> <p>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 <u>potential</u> 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.</p>	<p>provides the most relevant information for users.</p> <p>Operational capacity and financial capacity are interlinked. As recognized in paragraph 1.3(a) unless an entity is able to continue to fund its activities it will not be able to meet its operational objectives. As an exit value, net selling price is primarily relevant to assessments of financial capacity.</p> <p>As indicated above, Staff notes the view that historical cost information provides less relevant information than current value measurement bases (techniques in view of respondent).</p> <p>The intention in the discussion of market value was to indicate that in open, active and orderly markets the difference between entry and exit values is unlikely to be significant, but that where markets are inactive application of market value is likely to give an exit value.</p> <p>Staff agrees that the second sentence of paragraph 3.23 is confusing and that it should be deleted.</p>

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		<p>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”.</p> <p>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).</p> <p>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 <i>The Cost Approach for Tangible Assets</i>, 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.</p> <p><u>Net selling price</u></p> <p>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.</p> <p>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.</p> <p><u>Income approach</u></p> <p>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</p>	<p>Staff shares some of these reservations and thinks that if the discussion in paragraph 3.27 is to be retained it should be explained better.</p> <p>Staff notes the view on reproduction cost as an application of the cost approach in IFRS 13. In the context of the ED reproduction cost may be a method of estimating replacement cost.</p> <p>Paragraph 3.33 was explicit that net selling price does not require an open, active and orderly market and may reflect constraints on sale. It is therefore valid to consider it an entity specific value. However, the view in paragraph 3.39 that “net selling price is likely to provide information that is comparable between entities” should be weakened as entity-specific factors may reduce comparability.</p>

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		<p>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.</p> <p><u>Other relevant matters</u></p> <p>Other matters that HoTARAC believes should be addressed in the Framework (for both assets and liabilities, as far as relevant) include:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p>Staff agrees that the Framework should consider addressing cash flow-based measures-referred to as the income approach in IFRS13.</p> <p>To be considered in September papers</p> <p>The view that the more objective and/or verifiable the measurement inputs are, the better is the measurement outcome is implicit in paragraph 3.8, which stated that the usefulness of market value is more questionable when the assumption that markets are open, active and orderly is weakened. Nevertheless such a statement is useful.</p> <p>While Staff acknowledges the merits of proposing an ideal measurement basis it is not compatible with an endorsement of historical cost.</p> <p>The ED clearly stated that replacement cost is a measurement basis rather than a valuation technique to estimate fair value.</p>
029	A	Yes, I agree with the current value measurement bases for assets that have been identified in Section 3.	Noted

R#	C #	RESPONDENT COMMENTS SMC 2	STAFF COMMENTS
030	C	<p>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.</p>	<p>General support for historical cost is noted. The ED did not propose a primary measurement basis.</p> <p>Alignment with fiscal framework can enhance relevance & understandability of information, but should not be an overriding factor when other measures lead to more relevant and faithfully representative information.</p>
031	C	<p>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.</p>	<p>Staff acknowledges that this view flows from the view that a clearer measurement objective is necessary.</p>
032	C	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p> <p>Hence, specialised assets expected to be replaced are measured at depreciated replacement cost.</p>	<p>Heritage items provide numerous challenges. These include whether such items meet the definition of an asset. Where such items do meet the asset definition and measurement uncertainty cannot be addressed adequately an asset would not meet recognition criteria. Such circumstances are likely to give rise to disclosure issues. However, Staff does not think that this is sufficient rationale to propose symbolic or nominal values as potential measurement bases in the Framework.</p>

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033	C	<p><i>The respondent indicated that they are not in agreement. The respondent provided the information below in regards to information which should be included.</i></p> <p><u>Fair value</u></p> <p>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:</p> <ul style="list-style-type: none"> (a) Paragraph 9 of IPSAS 12 <i>Inventories</i> 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 <i>Property, Plant and Equipment</i> 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 <i>Investment Property</i> 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 <i>Agriculture</i> 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 <i>Financial Instruments: Recognition and Measurement</i> 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. <p><u>Net realizable value</u></p> <p>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</p>	<p>Staff accepts that fair value is a widely used measurement basis in current IPSAS. The examples provided by the respondent highlight some of the main areas where IPSASs currently require or permit fair value measurements. Adoption of the approach in CF-ED3 would have significant potential implications for existing IPSASs. While it is important that members are aware of these implications it is not the intention of the IPSASB to be constrained by approaches in current IPSASs.</p> <p>Need to define net realizable value to be considered further at the September meeting. Staff's initial tentative view is that net realizable value is a variant of net selling price and that it does not need to be defined in the Framework.</p>

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		<p>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.</p> <p><u>Net selling price</u></p> <p>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'.</p>	<p>The proposed definition of net selling price does not appear materially dissimilar to the definition in Section 3 of the ED.</p>
034	A	<p>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.</p>	<p>Noted. Staff acknowledges the view that disclosures are a standards-level issue, but considers that a brief allusion to disclosures in the Framework can act as a prompt to IPSASB to consider the issue in its standard-setting activities.</p>
035	C	<p>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.</p>	<p>The rationale for excluding fair value is that fair value and market value are similar, if not the same, Staff does not think that deprival value is a measurement basis; rather, as described in CF–ED3 it is an approach to selection of a current measurement basis that reflects the relationship between three current measurement bases.</p>
036	C	<p>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.</p>	<p>Whether a measurement basis is observable or non-observable can have implications for the QCs of understandability and verifiability.</p>

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		<p>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.</p> <p>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.</p> <p>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.</p>	<p>Observable measurement inputs are likely to be more verifiable and understandable and therefore lead to better measurement outcomes.</p> <p>The distinction between active and inactive markets is valid. Where markets are not open, active and orderly entry values and exit values are likely to differ, perhaps significantly.</p> <p>The definition of fair value in IFRS 13 is explicitly an exit value. Such a definition is likely to be applicable to assets primarily held for their contribution to financial capacity, but it is contestable whether an exit value is appropriate for assets that are being held for their contribution to operational capacity.</p>
037	C	<p>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.</p> <p>We do not consider that any other current value measurement bases for assets should be included in the framework.</p>	<p>Accepted that the three current value bases highlighted utilize market inputs. However, the proposed measurement bases differ in substance and are appropriate in different circumstances largely based on whether the asset to which they are applied contributes primarily to financial capacity or operational capacity</p>

Specific Matter for Comment (SMC) 3 (a):

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;

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 004, 005, 012, 016, 027, 029, 033, 034, 037	10
B – PARTIALLY AGREE	002, 003, 006, 007, 010, 018, 019, 020, 021, 023, 025, 031, 032	13
C – DISAGREE	008, 009, 011, 013, 017, 022, 024, 028, 030, 035, 036	11
SUB-TOTAL OF THOSE PROVIDING COMMENTS		34
D – DID NOT COMMENT	014, 015, 026	3
TOTAL RESPONDENTS		37

R#	C #	RESPONDENT COMMENTS SMC 3 (a)	STAFF COMMENTS
001	A	The FMSB agrees with the fair value measurement model proposed in Section 4.	Noted
002	B	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.	The objective of the fair value model is to estimate a market value where it has been decided that market value is an appropriate measurement basis but an active market does not exist, rather than to select a measurement basis itself. The comments appear to relate to the deprival value model rather than to the fair value model

R#	C #	RESPONDENT COMMENTS SMC 3 (a)	STAFF COMMENTS
003	B	<p>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.</p> <p>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.</p>	<p>The definition of fair value in IFRS 13 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.</p> <p>This definition may not be appropriate for specialized assets where markets are inactive.</p>
004	A	We agree.	Noted
005	A	Ja. (<i>interpreted by the IPSASB staff to be "yes" and in agreement</i>)	Noted
006	B	Yes. However this basis should also extended to all assets.	Noted. The model was not intended to be applied to all assets, only those where it had been decided that market value is appropriate but the market is inactive.
007	B	<p>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.</p> <p>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.</p> <p>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.</p>	<p>General support for view that current prices and exit based prices provide the most useful information about financial capacity is noted. The fair value model is conducive to provision of such information as it provides an approach to determining market value where a market is inactive.</p> <p>Reservations whether current entry prices provide the most faithful representation of operating capacity and the cost of services seem to be based on support for historical cost.</p>

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 3 (a)</p>	<p align="center">STAFF COMMENTS</p>
		<p>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.</p>	
008	C	<p>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.</p> <p>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.</p>	<p>The purpose of the fair value model is to estimate the price at which a transaction to sell an asset would take place in an open, active and orderly market at the measurement date under current market conditions. Staff accepts that the definition of fair value in IFRS 13 and market value in CF-ED 3 are not the same. However, Staff does not consider that they are so materially different that they substantially affect the analysis in CF-ED3.</p> <p>CF-ED3 did not propose that the fair value should be applied for assets held for their operational capacity. A number of respondents were critical of the ED for not doing so,</p>
009	C	<p>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.</p> <p>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.</p> <p>The objectives of financial reporting are to provide information that is useful to users for accountability</p>	<p>View that models are too low level for Framework noted. Staff generally agrees with this view and thinks that Section 4 should not be retained in the finalized chapter, although some of the material should be moved to Section 3 and the</p>

R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 3 (a)</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>and decision making purposes, and a measurement objective would need to reflect this.</p> <p>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.</p> <p>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.</p>	<p>Basis for Conclusions</p>
010	B	<p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>Partial support of the two models is noted, but also the view that they are too low level for Framework. Staff generally agrees with this view and considers that, although some of the material in Section 4 should be retained the Section itself should not be retained in the finalized chapter</p>
011	C	<p>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.</p>	<p>Support for IFRS 13 definition of fair value noted.</p>
012	A	<p>We agree with the approaches set out in Section 4 for the fair value measurement model.</p>	<p>Noted</p>
013	C	<p>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</p>	<p>According to the proposals in the ED the fair value model would be deployed in circumstances where it had been determined that market value is the appropriate measurement basis, but the market is inactive.</p> <p>While they are unlikely to be relevant to</p>

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R#	C #	RESPONDENT COMMENTS SMC 3 (a)	STAFF COMMENTS
		market's real potential into its calculation in order to derive more value from the resulting calculation.	operational assets exit values are likely to be relevant in the public sector for many assets that provide financial capacity. Such assets may include non-financial assets.
014	D	<i>No comment noted.</i>	
015	D	<i>No comment noted.</i>	
016	A	We agree on both points.	Noted
017	C	<p>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.</p> <p>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.</p> <p>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.</p>	View that models are too low level for Framework noted. Staff generally agrees with this view and thinks that, although some of the material in Section 4 should be retained the Section should be deleted
018	B	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.	Noted
019	B	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.	<p>The ED proposed the fair value model as a means of determining market value where there are inactive markets</p> <p>It is unlikely that the fair value model would be relevant for operational assets.</p>
020	B	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.	

R#	C #	RESPONDENT COMMENTS SMC 3 (a)	STAFF COMMENTS
021	B	<p>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.</p>	<p>The ED did not propose both market value and fair value as measurement bases, because of their similarity. Market value was defined as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction at the reporting date."</p>
022	C	<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 the assets. The model is predicated on certain assumptions:</p> <ol style="list-style-type: none"> 1. The asset will be used in its highest & best use, taking into account physical characteristics and uses that are legally permissible and financially feasible. 2. The transaction takes place in the principal and most advantageous market for the asset. 3. The most appropriate valuation techniques are used which considers assumptions market participants will use when pricing the asset. <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 & 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>	<p>The model relates to circumstances where it has been decided that an exit value is appropriate but the market is inactive. It is unlikely to be widely applicable to operational assets. A decision to include transaction costs might be made at standards level if IPSASB decides that it produces more relevant information.</p> <p>Staff acknowledges that where inputs to models for determining market/fair value are unobservable there is a risk of subjectivity and the extent to which the information meets the QCs of understandability and verifiability will need to be assessed. The IPSASB has considered these issues at standards level in the context of large scale financial guarantees in the development of IPSAS 28, <i>Financial Instruments: Recognition and Measurement</i>"</p>

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R#	C #	RESPONDENT COMMENTS SMC 3 (a)	STAFF COMMENTS
023	B	<p>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.</p> <p>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.</p> <p>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.</p>	View that models should be moved to Basis for Conclusion noted. Staff generally agrees with this view and thinks that, although some of the material in Section 4 should be retained in either Section 3 or the Basis for Conclusions, the Section should be deleted. The reason for such an approach should be explained in the Basis for Conclusions.
024	C	<p>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.</p> <p>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.</p>	The model relates to circumstances where it has been decided that an exit value is appropriate but market is inactive. While it is unlikely to be widely applicable to operational assets exit values are likely to be relevant in the public sector for many assets that provide financial capacity
025	B	<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 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>	View that models are too low level for Framework noted. Staff generally agrees with this view and thinks that, although some of the material in Section 4 should be retained the Section should be deleted.
026	D	We have no comment here.	Noted
027	A	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	Noted. Staff is not convinced that the Framework is the appropriate vehicle for detail on the practical application of the

R#	C #	RESPONDENT COMMENTS SMC 3 (a)	STAFF COMMENTS
		<p>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.</p>	<p>fair value model.</p>
028	C	<p>As stated in our General Comments and in our response on the Consultation Paper, HoTARAC strongly prefers the IFRS 13 <i>Fair Value Measurement</i> 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.</p> <p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • the use of market value for IMF/GFS measurement purposes; and • the use of fair value by the IASB (applied by public sector GBEs). <p>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.</p> <p>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 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</p>	<p>View that fair value can be applied to all assets is noted.</p> <p>Application of replacement cost as the cost model in IFRS 13 noted.</p> <p>The reference in paragraph BC26 was explicitly to fair value as defined in IFRS 13. Nevertheless, Staff accepts that the</p>

R#	C #	RESPONDENT COMMENTS SMC 3 (a)	STAFF COMMENTS
		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.	exclusion of fair value as measurement basis, but the partial reintroduction as a measurement model in Section 4 may be confusing. The definition of fair value in the current IPSASB literature is not consistent with the definition in IFRS 13. IPASASB has not considered the IFRS 13 definition.
029	A	Yes. I agree with the approaches proposed in Section 4.	Noted.
030	C	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.	Noted. View that there are limited circumstances in which measurement bases other than historical cost are appropriate is considered too narrow.
031	B	Notwithstanding our responses in comments 1 and 2 we agree the approaches are appropriate.	Classification based on views on SMCs 1 & 2.
032	B	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.	Staff broadly agrees with this interpretation.
033	A	We agree on the Specific Matters for Comments raised in the Exposure Draft other than Specific Matter for Comment 2, 3(b) and 4 as detailed below.	Noted.
034	A	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	General support noted, but also view that the models are too low level for Framework. Staff generally agrees with this view and thinks that, although some

R#	C #	RESPONDENT COMMENTS SMC 3 (a)	STAFF COMMENTS
		<p>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.</p> <p>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.</p>	<p>of the material in Section 4 should be retained in either core text or Basis for Conclusions the Section should be deleted.</p>
035	C	<p>We do not agree with the approach taken that excludes these two measurement models from the discussion of current value measurement bases.</p> <p>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.</p>	<p>A late draft of the ED considered at the September 2012 meeting did include more discussion of what have been classified as Level 1, Level 2 and Level 3 inputs in IFRS 13, <i>Fair Value Measurement</i>. This was considered too detailed for the Framework and deleted during finalization.</p>
036	C	<p>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:</p> <p>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.</p> <p>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'</p>	<p>Staff will review sequence of drafting if it is decided to retain the section on the fair value model. The intention was to convey the point that the fair value model uses observable data where available, but to acknowledge that unobservable inputs might be used if observable data is unavailable.</p> <p>Staff agrees that due to its centrality the term 'operational assets' should be</p>

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R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 3 (a)</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>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.</p>	<p>defined.</p>
037	A	<p>Yes – we consider that the ED's discussion of fair value and deprival value is balanced and we have no other comments to make.</p>	<p>Noted</p>

Specific Matter for Comment (SMC) 3 (b):

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

- (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.

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 004, 012, 016, 029, 031, 034, 037	8
B – PARTIALLY AGREE	002, 003, 010, 021, 023, 024	6
C – DISAGREE	005, 006, 007, 008, 009, 011, 013, 017, 018, 019, 020, 027, 028, 032, 033, 035	16
SUB-TOTAL OF THOSE PROVIDING COMMENTS		30
D – DID NOT COMMENT	014, 015, 022, 025, 026, 030, 036	7
TOTAL RESPONDENTS		37

R#	C #	RESPONDENT COMMENTS SMC 3 (b)	STAFF COMMENTS
001	A	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.	Noted
002	B	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.	The potential costs of applying the deprival value model are acknowledged.
003	B	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	The ED proposed replacement cost as a current measurement basis in its own

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		(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).	right rather than as a method of determining fair value
004	A	We agree.	Noted
005	C	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.	Reaffirmation of view expressed on Consultation Paper acknowledged. Staff thinks that the extent to which there is an absence of active markets for operational assets can be exaggerated. Open, active and orderly markets are likely to exist for operational assets such as office buildings
006	C	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: <ul style="list-style-type: none"> • 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 	Strong opposition to deprival value as discussed in the ED is noted. See General Comments section of this agenda item.
007	C	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	It is acknowledged that the deprival value model is an approach to the selection of current value measurement bases and is not relevant where the decision has already been made to adopt historical cost. As proposed in the ED replacement cost adopts an optimized approach, which reflects appropriate service potential including capacity to deal with contingencies.

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		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.	
008	C	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.	Opposition to deprival value model is noted.
009	C	<i>Comments included for SMC 3(b) have been included together with SMC 3(a) by the respondent. The respondent does not believe that detailed guidance on measurement should be in the conceptual framework, however recommends a measurement objective to be supported by detailed guidance at the standards level.</i>	Noted. See Staff Comments on SMC 3 (a).
010	B	<i>Comments included for SMC 3(b) have been included together with SMC 3(a) by the respondent. The respondent partially agrees expressing that they are in agreement with the proposed models for SMC 3, however, noting they believe that a conceptual framework should not be prescribing detailed measurement models, as they are more appropriate in the body of the accounting standards.</i>	Noted. See Staff Comments on SMC 3(a).
011	C	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.	Noted. See Staff Comments in General Comments section.
012	A	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.	Noted. The ED proposed the deprival value model as a method of selecting or confirming the use of a current measurement basis. It was not intended to make this a requirement and, as indicated elsewhere, Staff does not favour retention of the model in the finalized Framework.

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013	C	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.	Views on potential for abuse noted. Staff thinks that these may be overstated. Some of these risks arguably also relate to fair value when non-observable inputs are used.
014	D	<i>No comment noted.</i>	
015	D	<i>No comment noted.</i>	
016	A	We agree on both points.	Noted
017	C	<i>Comments included for SMC 3(b) have been included together with SMC 3(a) by the respondent. The respondent believes that a conceptual framework should not be prescribing detailed measurement models, as specific accounting standards would be a more appropriate place to provide this type of specific guidance on measurement.</i>	Opposition to detailed measurement models noted.
018	C	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.	Replacement is more complex to determine than measures derived in an open, active and orderly market. The complexity of determining value in use for non-cash-generating assets is acknowledged.
019	C	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.	Noted
020	C	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	Staff notes that if the proposals in the ED were to be adopted there would be a dislocation between the framework and

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		<p>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:</p> <ul style="list-style-type: none"> • 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)) <p>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.</p>	the approach in IPSAS 21. The complexity and cost of the deprival value model is acknowledged.
021	B	<p>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. 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 measurements bases in the model involves a great deal of assumptions, estimation and discounting for instance in the case of value in use.</p>	Agree that deprival value is not a separate measurement basis and particularly acknowledged that value-in-use is not straightforward to determine
022	D	<i>No comment noted.</i>	
023	B	<i>Comments included for SMC 3(b) have been included together with SMC 3(a) by the respondent. The respondent notes that they are in agreement with the content of the Deprival model. However, the respondent believes that a conceptual framework should not prescribe detailed measurement models/methods, as specific accounting standards would be a more appropriate place to provide this type of specific guidance on measurement.</i>	Noted.
024	B	<i>Comments included for SMC 3(b) have been included together with SMC 3(a) by the respondent. The respondent notes that they are in agreement with the content of the Deprival model. However, the respondent believes that a conceptual framework should not prescribe detailed measurement models/methods, as specific accounting standards would be a more appropriate place to provide this type of specific guidance on measurement.</i>	Noted

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025	D	<i>No comment noted.</i>	
026	D	We have no comment here.	Noted
027	C	<p>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.</p> <p>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.</p> <p>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</p>	<p>View that deprival value can be complex and costly noted. Accepted that certain international organizations can rely disproportionately on assets acquired in non-exchange transactions.</p> <p>Support for use of proxies noted.</p>
028	C	<p>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.</p> <p>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.</p> <p>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</p>	<p>Opposition to deprival value model and support for approach based on IFRS 13 noted.</p> <p>As previously indicated Staff questions whether a measurement basis that is explicitly exit based is appropriate for assets primarily held for their operational capacity.</p>

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		<p>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.</p> <p>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.</p>	
029	A	Yes. I agree with the approaches proposed in Section 4.	Noted
030	D	<i>No comment noted.</i>	
031	A	Notwithstanding our responses in comments 1 and 2 we agree the approaches are appropriate.	Noted
032	C	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.	View that deprival value model over complex noted.
033	C	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.	It is not the intention for the Framework to be constrained by requirements in current IPSASs. It is accepted that, primarily because of the proposal not to define fair value and the use of net selling price rather than fair value less costs to sell in the description of deprival value the description of recoverable amount differs from IPSAS 21.
034	A	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	General support noted and also view that Framework not the appropriate location for discussion of the fair value and

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R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 3 (b)</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>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.</p> <p>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.</p>	<p>deprival value models. Staff generally agrees with this view.</p>
035	C	<p>We do not agree with the approach taken that excludes these two measurement models from the discussion of current value measurement bases.</p> <p>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.</p>	<p>Explanation of Australian experience of use of deprival value noted and difference in approach to concept of replacement cost. The deprival value model uses an optimized replacement cost approach.</p>
036	D	<p><i>No comment noted.</i></p>	
037	A	<p>Yes – we consider that the ED’s discussion of fair value and deprival value is balanced and we have no other comments to make.</p>	<p>Noted</p>

Specific Matter for Comment (SMC) 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?

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

CATEGORY (C #)	RESPONDENTS (R #)	TOTAL
A – AGREE	001, 002, 004, 009, 010, 012, 013, 016, 017, 020, 021, 023, 025, 026, 029, 030, 034	17
B – PARTIALLY AGREE	005, 007, 008, 011, 019, 022, 031, 037	8
C – DISAGREE	003, 018, 027, 028, 032, 033, 035, 036	8
SUB-TOTAL OF THOSE PROVIDING COMMENTS		33
D – DID NOT COMMENT	006, 014, 015, 024	4
TOTAL RESPONDENTS		37

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
001	A	We agree with the proposed measurement bases for liabilities in Section 5 of the ED.	Noted
002	A	We agree with the proposed measurement bases for liabilities.	Noted
003	C	<p>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.</p> <p>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.</p>	<p>Support for fair value as defined in IFRS 13 noted.</p> <p>The view that use of the relief model is driven by a quest for symmetry with deprival value is partially accepted. Staff considers that the reference to the relief model is unnecessary.</p>

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			<p>Staff does not consider that the definition of fair value in IFRS 13 is appropriate for a large number of public sector transactions, especially of a non-exchange nature, where there is unlikely to be a market. Staff considers that cost of release and cost of fulfillment both involve settlement of a liability rather than its transfer, as defined in IFRS 13.</p> <p>See also comments on Respondent 036 about the inconsistency between paragraphs 3.3 and 5.6.</p>
004	A	We agree.	Noted
005	C	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.	<p>The definition of market value for a liability was provided in paragraph 3.3 in Section 3. Staff agrees that, if retained as a measurement basis, market value should be explicitly defined in the Liabilities section.</p> <p>See also comments on Respondent 036 about the inconsistency between paragraphs 3.3 and 5.6.</p>
006	D	<i>No comment noted.</i>	
007	B	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	Staff agrees that the example as drafted is too limited and supports the

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		<p>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.</p> <p>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.</p>	<p>suggestion for revised wording: “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.”</p>
008	B	<p>The Council considers the liability measurement bases put forward by the IPSAS Board to be relevant, except for the “assumption price” basis.</p> <p>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.</p> <p>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.</p>	<p>Staff considers that “assumption price” might be a useful measurement basis but that it could be encompassed within market value.</p> <p>Staff agrees that the discussion of liabilities is not as extensive as for assets. This is partially because material common to both assets and liabilities is not repeated in Section 5. Nevertheless this should be redressed as the Chapter is finalized.</p>
009	A	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 fulfillment.	Noted
010	A	We agree with the proposed measurement bases for liabilities.	Noted
011	B	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.	Agree that this change should be considered.

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012	A	Overall, we agree with the five measurement bases proposed in the ED for liabilities, as well as the corresponding terminology for assets.	Noted
013	A	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.	Noted
014	D	<i>No comment noted.</i>	
015	D	<i>No comment noted.</i>	
016	A	We agree.	Noted
017	A	CIPFA agrees with the proposed measurement bases for liabilities in Section 5.	Noted
018	C	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.	Comment by Respondent on SMC 1 indicated that measurement of assets and liabilities should take prudence into account. The response has been interpreted in this way. The Basis for Conclusions of Chapter 3 explains that: <i>the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFs is already embedded in the notion of faithful representation.</i>

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
019	B	<p>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.</p> <p>Market value would be appropriate for some liabilities provided there is observable data in an open, active and orderly market that is verifiable.</p>	<p>Support for historical cost noted.</p> <p>Paragraph 5.24 includes a reference to discounting in the context of the cost of fulfillment. Staff considers that consideration should be given to broadening the discussion on discounting,</p>
020	A	We agree with the proposed measurement bases for liabilities in Section 5.	Noted
021	A	We agree that the measurement bases sufficiently address the measurement of liabilities in the financial statement.	Noted
022	B	<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>The ED noted that cost of release will often not be feasible in a public sector context and that non-exchange transactions are unlikely to provide evidence of assumption price. In such cases cost of fulfillment may be the only relevant measure.</p>

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
		<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 "cost of release" 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><u>Conclusion</u></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. 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.</p>	
023	A	We agree with the proposal.	Noted
024	D	<i>No comment noted.</i>	
025	A	We agree with the proposed measurement bases for liabilities and have no additional bases that we would include in the Framework.	Noted
026	A	We do agree with the proposed measurement bases for liabilities as outlined in Section 5, we have no divergent views.	Noted
027	C	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	Paragraph BC 31 included a conclusion that for liabilities arising from non-

R#	C #	<p align="center">RESPONDENT COMMENTS</p> <p align="center">SMC 4</p>	<p align="center">STAFF COMMENTS</p>
		<p>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.</p>	<p>exchange transactions cost of fulfillment will often be the only practical and relevant measurement basis. This point might be elevated into the main body of the text.</p>
028	C	<p>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.</p> <p>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.</p> <p>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</p>	<p>Because many liabilities in the public sector cannot be transferred the definition in IFRS 13 is not suitable in many circumstances. Staff does not think that cost of fulfillment can be considered as a valuation technique to estimate fair value.</p> <p>It is accepted that instances where assumption price can be applied in the public sector are likely to be limited. Paragraph BC31 indicated that cost of fulfillment is likely to be the only feasible</p>

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
		<p>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.</p> <p>Regarding the cost of fulfillment, 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.</p>	<p>measurement basis for many liabilities arising from non-exchange transactions. As indicated above</p> <p>The statement in paragraph 5.22 might have been clearer if it stated that where the cost of fulfillment is greater than carrying amount the liability should be adjusted, assuming cost of release is higher than cost of fulfillment.</p>
029	A	Yes, I agree with the proposed measurement bases for liabilities in Section 5.	Noted
030	A	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.	Noted
031	B	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.	Normally cost of release will be higher than cost of fulfillment and therefore the circumstances where cost of release will provide relevant information are likely to be limited.
032	C	<p>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.</p> <p>Nevertheless, the notes disclose information about market value of derivatives, that are not measured at market value in the central government balance sheet.</p> <p>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.</p>	While cost-based measures will often be appropriate, particularly where cash flows are non-variable in accordance with stated contractual terms Staff does not consider that cost based measures can be universally applied to financial liabilities and that disclosure of obligations related to derivatives is not a

R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
			substitute for recognition.
033	C	<p><i>The respondent indicated that they are not in agreement. The respondent provided the information below in regards to information which should be included.</i></p> <p><u>Fair value</u></p> <p>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:</p> <ul style="list-style-type: none"> (a) Paragraph 9 of IPSAS 12 <i>Inventories</i> 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 <i>Property, Plant and Equipment</i> 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 <i>Investment Property</i> 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 <i>Agriculture</i> 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 <i>Financial Instruments: Recognition and Measurement</i> 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. <p><u>Net realizable value</u></p> <p>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</p>	<p>Staff notes the support for fair value as defined by the IASB for both assets and liabilities. As indicated for Respondent 003 Staff does not consider that the definition is adequate to address a large number of public sector transactions, especially of a non-exchange nature, where there is unlikely to be a market.</p>

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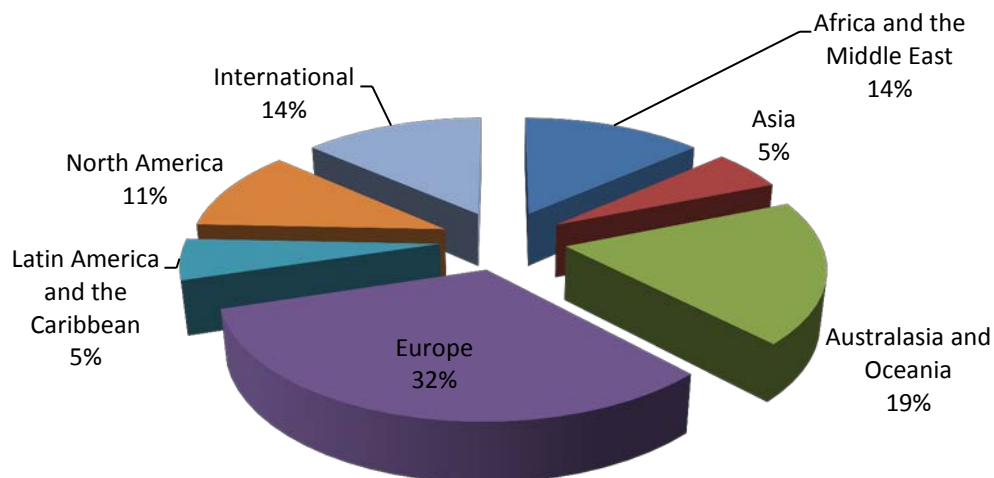
R#	C #	RESPONDENT COMMENTS SMC 4	STAFF COMMENTS
		<p>costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. We believe net realizable value does not fall under any of the current measurement bases discussed in the Exposure Draft. Accordingly, we suggest the IPSASB to include net realizable value as a measurement base of assets.</p> <p><u>Net selling price</u></p> <p>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'.</p>	
034	A	We agree with the proposed measurement bases for liabilities in Section 5.	Noted
035	C	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.	As indicated for Respondents 003 and 033 Staff does not consider that the definition of fair value in IFRS 13 is adequate to address a large number of public sector transactions, especially of a non-exchange nature, where there is unlikely to be a market The relief value model was mentioned in a footnote to Section 5 as the mirror of the deprival value model for assets.
036	C	<p>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.</p> <p>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 fulfillment in paragraphs 5.18-5.25). These are different</p>	<p>Staff agrees that cost of release and cost of fulfillment are separate measurement bases</p> <p>Staff acknowledges the inconsistency between paragraphs 3.3 and 5.6. The tentative view is that the definition in paragraph 3.3 should be modified as</p>

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R#	C #	<p style="text-align: center;">RESPONDENT COMMENTS</p> <p style="text-align: center;">SMC 4</p>	<p style="text-align: center;">STAFF COMMENTS</p>
		<p>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.</p>	<p>suggested. This might distinguish market value from cost of release and cost of fulfillment.</p>
037	B	<p>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.</p>	<p>Staff does not consider that cost of fulfillment and cost of release are market-based.</p>

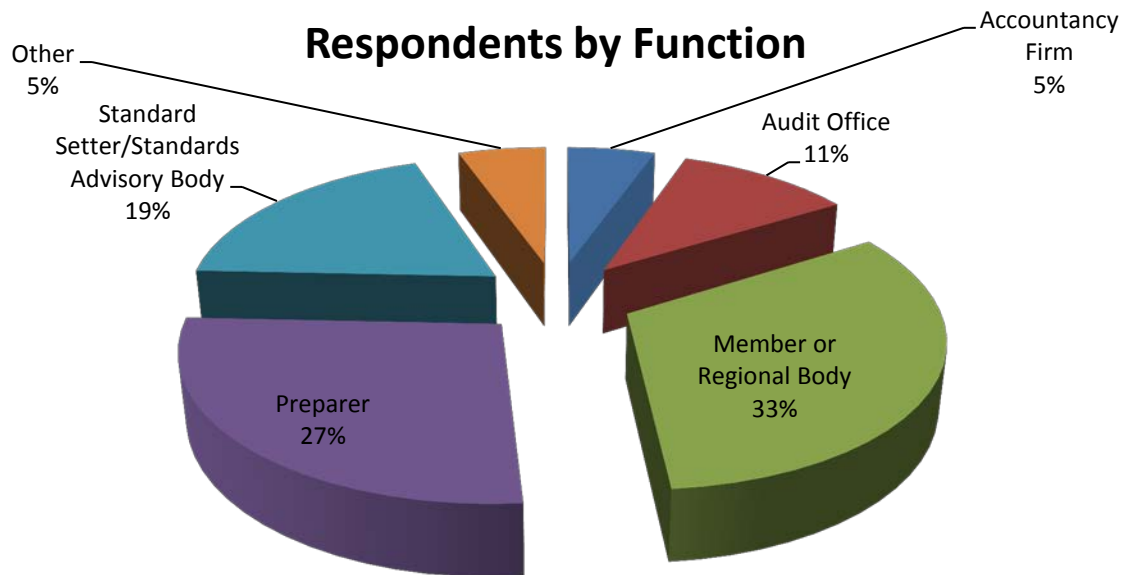
CONCEPTUAL FRAMEWORK MEASUREMENT**Analysis of Respondents by Region, Function, and Language****Geographic Breakdown**

Region	Respondents	Total
Africa and the Middle East	4, 10, 21, 26, 31	5
Asia	23, 33	2
Australasia and Oceania	2, 3, 6, 11, 14, 28, 35	7
Europe	5, 8, 15, 16, 17, 18, 20, 24, 25, 32, 34, 37	12
Latin America and the Caribbean	22, 29	2
North America	1, 7, 19, 30	4
International	9, 12, 13, 27, 36	5
Total		37

Respondents by Region

Functional Breakdown

Function	Respondents	Total
Accountancy Firm	13, 36	2
Audit Office	14, 18, 25, 31	4
Member or Regional Body	4, 9, 12, 15, 17, 20, 21, 22, 23, 26, 33, 35	12
Preparer	1, 2, 3, 19, 24, 27, 28, 30, 32, 34	10
Standard Setter/Standards Advisory Body	5, 7, 8, 10, 11, 16, 37	7
Other	6, 29	2
Total		37



Linguistic Breakdown:

Language	Respondents	Total
English-Speaking	1, 2, 3, 4, 6, 10, 11, 12, 13, 14, 17, 19, 22, 26, 28, 30, 35, 36, 37	19
Non-English Speaking	5, 8, 15, 16, 18, 20, 23, 24, 29, 32	10
Combination of English and Other	7, 9, 21, 25, 27, 31, 33, 34	8
Total		37

Respondents by Language

