May 13, 2019

To: IPSASB Technical Director

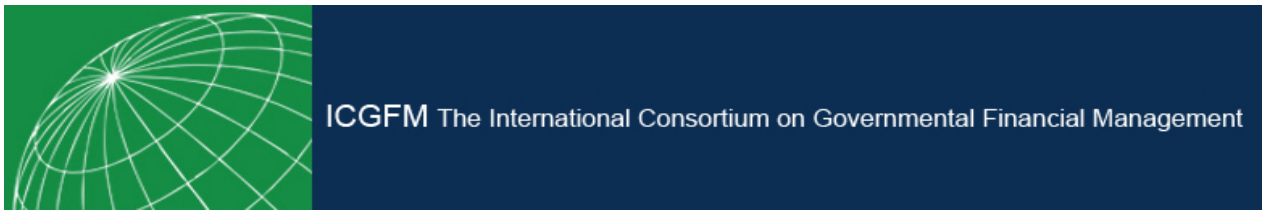
Subject: Comment on Consultation Paper "Measurement"

Many thanks for giving the opportunity to comment on the Consultation Paper "Measurement".

My comments shall be followings:

1. Measuring all financial statements items, including assets, liabilities, revenues, and expenses need Measurement requirements. In respect of revenues, measurement requirements are considering in "Revenue Project". Measurement requirements of the assets and liabilities are discussing in "Measurement Project". But, about the expenses, only some of them, including transaction costs and borrowing costs are dealing with in "Measurement Project". It will be better if the other expenses, for example expenses in construction contracts, investment property, R&D and etc. deal with in "Measurement Project".
2. "Impairment" is a part of measurement. However, you exclude it of the scope of the "Measurement Project". Why you do this? I think it should be considered in this project.
3. If "Measurement Project" results in an IPSAS, the conceptual framework will not contain the Measurement Part. So I think it will be better the result of this project be replaced with chapter 7 of the conceptual framework instead of a new IPSAS.
4. In figure 2.2 "Sources of Guidance", all measurement bases should be outlay not some of them. So it needs to include "value in use" and "net realizable value".

Halimeh Rahmani



PO Box 1077
St Michaels, MD 21663
USA
T. 410-745-8570
F. 410-745-8569

11 September, 2019

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

Dear Sir

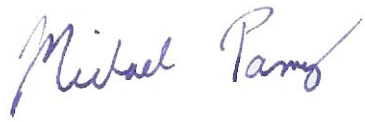
1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultation Paper "Measurement" issued April 2019.

2. The ICGFM is primarily concerned with the financial management of sovereign governments. We are of the view that as far as feasible IPSAS should be consistent with IMF Government Finance Statistics (GFS) requirements as set out in the latest edition of the GFS Manual. This is reflected in our comments.

3. Governments across the world present citizens with two financial reports – one prepared according to statistical guidelines (usually GFS, ESA in the European Union), the other based on IPSAS or national reporting standards. Whilst there will be inevitable differences in coverage between these reports, it is difficult to justify to citizens why these two reports value assets and liabilities differently. However much the explanations are wrapped up in technical jargon, such differences inevitably cause confusion and devalue both reports. It is therefore our view that harmonisation of IPSAS with GFS is as important as harmonisation with IFRS.

4. We appreciate the opportunity to comment on this Exposure Draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,



Michael Parry

Chair, ICGFM Accounting Standards Committee

Cc: Lucie Philips, President, ICGFM

Members

Michael Parry, Chair
Andrew Wynne
Anne Owuor
Hassan Ouda
Tetiana Iefymenko
Jesse Hughes
Mark Silins
Nino Tchelishvili
Paul Waiswa

Preliminary View	ICGFM Comment
Preliminary View 1—Chapter 2 (following paragraph 2.6) The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.	Agreed
Preliminary View 2—Chapter 2 (following paragraph 2.6) The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons, and state what guidance should be included, and why.	Agreed
Preliminary View 3—Chapter 2 (following paragraph 2.10) The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons, stating clearly what you consider needs to be changed.	Agreed.

Preliminary View	ICGFM Comment
Preliminary View 4—Chapter 2 (following paragraph 2.16) The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons, stating clearly what you consider needs to be changed.	Agreed, but see below GFS defines value as the market value of an asset or liability. If market value is not available surrogate measures that best approximate market value should be used. In practical terms we can see no difference between the definition of fair value in the illustrative ED (and Conceptual Framework) and market value, except that there is no specific guidance on what to do in the absence of an active market for the asset or liability.
Preliminary View 5—Chapter 2 (following paragraph 2.28) The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons, stating clearly what you consider needs to be changed.	Agreed Our view is that fulfilment value is one example of a surrogate measure where there is no active market
Preliminary View 6—Chapter 2 (following paragraph 2.28) The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons, stating clearly what you consider needs to be changed.	Agreed Again, replacement cost is effectively the market value of a replacement asset
Preliminary View 7—Chapter 3 (following paragraph 3.28) The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. *Do you agree with the IPSASB's Preliminary View?* If not, please state which option you support and provide your reasons for supporting that option.	Agreed, but see below This a difficult issue as in some countries high borrowing costs if expensed may distort decisions about whether to acquire assets through self-build or through some form of public-private partnership

Preliminary View	ICGFM Comment
Preliminary View 8—Chapter 3 (following paragraph 3.36) The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows: **Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.	Agreed
Preliminary View 9—Chapter 3 (following paragraph 3.42) The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.	Agreed
Preliminary View 10—Chapter 3 (following paragraph 3.54) The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be: - Excluded in the valuation of liabilities measured at fulfilment value; - Excluded from the valuation of assets and liabilities measured at fair value; and - Included in the valuation of assets measured at historical cost and replacement cost. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.	Agreed

Preliminary View	ICGFM Comment
Preliminary View 11—Chapter 3 (following paragraph 3.54) The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be: - Included in the valuation of liabilities measured at fulfilment value; - Excluded from the valuation of assets and liabilities measured at fair value; and - Excluded in the valuation of assets measured at historical cost and replacement cost. *Do you agree with the IPSASB's Preliminary View?* If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.	Agreed
Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29) Definitions relating to measurement have been consolidated in the core text of the Illustrative ED. *Do you agree that the list of definitions is exhaustive?* If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.	Agreed, we have nothing to add
Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5) Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. *Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?* *Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?*	We consider the valuation principles in GFS are of much greater significance because both IPSAS and GFS financial reports will be prepared from the same database of accounting information

Preliminary View	ICGFM Comment
Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21) *Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:* - The Conceptual Framework Measurement Objective; - Reducing unnecessary differences with GFS; - Reducing unnecessary differences with IFRS Standards; and - Improving consistency across IPSAS. *If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors?* Please provide your reasons.	In our view the IPSAS valuation approach lacks the conceptual simplicity and elegance of the GFS approach. The latter has a single valuation principle and everything else flows from this principle. This is reflected in the diagrams 4.1 and 4.2 which are complex and fail to establish any underlying principle. We therefore concur with the additional areas that need to be considered

ACCOUNTANCY EUROPE.

Ian Carruthers
Chairman
IPSASB
IFAC

Submitted via website

Brussels, 13 September 2019

Subject: Response to IPSASB Consultation Paper *Measurement*

Dear Sir or Madam,

1. We are pleased to provide our response to the IPSASB's public consultation / exposure draft on *Measurement*.

2. Accountancy Europe believes that there is value in the IPSASB providing more clarity on appropriate measurement bases for the public sector and producing detailed application guidance.

3. Some have questioned the need to produce a separate Standard. The IASB has included guidance on measurement bases in its Conceptual Framework. It could be argued that this approach provides preparers with a single place to find generic guidance before then consulting the specific Standard to deal with the choice of measurement basis and the disclosure requirements. This approach would also avoid duplicating text drawn from the IPSASB's Conceptual Framework.

4. On the other hand, there are arguments that the Conceptual Framework is not the ideal location for application guidance and that including application guidance in a separate Standard would elevate its significance. Additionally, if there were not to be a separate measurement Standard then the question would arise as to which Standard should contain the accounting treatment of transaction costs.

5. After due consideration, we support the IPSASB's decision to publish a separate Standard on measurement. We also agree with the IPSASB's Preliminary View that the Standard should provide generic guidance, with application guidance on specific transactions being included in the relevant Standard.

6. We do not agree with the proposed treatment of borrowing costs – namely, the immediate expensing of such costs when incurred. Although this is a difficult topic with differing viewpoints, on balance, we prefer that the default treatment is that such costs are capitalised. However, where the costs of capitalisation outweigh the potential benefits for users of the

financial statements or if capitalisation would impair faithful representation, we believe that an option should exist for the organisation to immediately expense borrowing costs.

7. We are not convinced that the public sector specificities are sufficient to warrant the divergent treatment of borrowing costs from that in the private sector. Many conglomerates in the private sector also have centralised financing arrangements - often with additional cross-border complexity - but are able to allocate borrowing costs across different entities within the group in a manner consistent with providing a faithful representation in their financial statements.

8. Please find below our detailed responses for the specific questions contained in the Consultation Paper.

Sincerely,



Florin Toma
President

Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 36 countries that represent **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

Preliminary View 1—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why?

9. We agree that fair value, fulfilment value, historical cost and replacement cost require application guidance.

10. However, the Conceptual Framework lists other measurement bases for assets and liabilities for which guidance has not been included in the draft. These are *net selling price* and *value in use* for assets and *market value*, *cost of release* and *assumption price* for liabilities.

11. The Conceptual Framework maps the use of measurement bases in current IPSAS and states that guidance will be provided for the 'commonly applied measurement bases'. With the exception of *value in use* – specifically excluded from the CP\ED - most of the bases excluded are not present in existing IPSAS.

12. We assume that *value in use* for assets, *market value*, *cost of release* and *assumption price* will be removed from the Conceptual Framework when the limited review is conducted. Otherwise, in our opinion, if a measurement basis is included in the Conceptual Framework as a valid measurement basis for the public sector, then application guidance for it should be included in the Measurement Standard.

Preliminary View 2—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

13. We agree with the Preliminary View that the application guidance in the Measurement Standard should be generic in nature, with transaction specific measurement guidance (such as which measurement basis to use, impairment and disclosure requirements) being included in the relevant individual accounting standards.

Preliminary View 3—Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost– Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

14. We agree that guidance on historical cost should be derived from existing text and agree that *Appendix C: Historical Cost– Application Guidance for Assets* appears to be complete.

Preliminary View 4—Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

15. We agree that fair value guidance should be aligned as far as possible with that contained in IFRS 13.

16. In order to avoid confusion, we believe that it is important to indicate the source of the guidance as being directly from IFRS 13 in the final standard, as is indicated in the ED. We believe that this will strengthen the message of the value of consistency between public sector and private sector treatment of similar transactions. It also has the advantage of clarifying the origin of the guidance for those who are not familiar with private sector accounting standards.

17. We agree that *Appendix A: Fair Value – Application Guidance* appears to be complete.

Preliminary View 5—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

18. We agree that guidance on fulfilment should be derived from existing text and agree that *Appendix B: Fulfilment Value – Application Guidance* appears to be complete.

Preliminary View 6—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

19. We agree that guidance on replacement cost should be based on the concepts developed in the Conceptual Framework. We agree that *Appendix D: Replacement Cost -– Application Guidance* appears to be complete.

Preliminary View 7—Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

20. In paras 3.24-3.27 the IPSASB sets out its view as to why borrowing costs should be expensed as occurred – fundamentally that the specificities of public sector funding and borrowing means that public sector borrowing is rarely specific to the construction or development of an individual asset. Consequently, whilst it may be feasible to allocate borrowings to specific assets, such allocation will often be arbitrary and is therefore unlikely to provide relevant and faithful information to the users of public sector financial statements.

21. We do not agree with this Preliminary View. There are undoubtedly difficult conceptual questions as to the appropriate treatment of borrowing costs. For example, in respect of capitalisation of borrowing costs, some question the rationale for having potentially different carrying values for the same asset depending on the project's funding model. Others point out the issues with public-private financed initiatives or special purpose vehicles using private sector accounting rules potentially showing higher asset values for the same asset compared to purely public sector entities.

22. However, we are not convinced that difficulties in attributing borrowing costs to specific projects in the public sector is sufficient reason to diverge from private sector accounting treatment. In our opinion, it is often possible to directly link borrowing costs with specific projects, particularly in the case of large infrastructure assets.

23. Even when there is not a direct causal link between borrowing and specific projects, we believe that there are ways of allocating borrowing costs to the assets that are not arbitrary but based on well-established project financing principles. Large conglomerates in the private sector face similar challenges (often made more complex by having establishments in different jurisdictions) as in many cases it is more efficient and cost effective to have intra-group pooling of financing. To deal with such situations, there are well established transfer pricing methods for allocating financing costs – such as the Comparable Uncontrolled Price (CUP) method, which uses 'arm's-length' interest rates that would be paid by independent entities for comparable transactions.

24. By failing to include borrowing costs into the overall cost of the asset, we believe that there will be a failure to match the cost of the asset to its service potential - thereby not faithfully representing costs both during the construction period and then in the period of use.

25. The immediate expensing of borrowing costs could also lead to inconsistency in treatment with other public sector costs. For example, it is conceivable that shared labour or technical resources could be used in the course of constructing the asset and it would be normal accounting treatment to allocate an appropriate share of these costs to the project in question.

26. Additionally, immediate expensing of borrowing costs reduces consistency with similar projects in the private sector. This is a major issue in jurisdictions where private funding - or mixed public-private funding – is a common means of financing public sector projects.

27. Accountancy Europe appreciates that this is a difficult area and asks that the IPSASB considers this matter in more detail. On balance, however, we believe that the benchmark treatment of borrowing costs should be to capitalise such expenses, as required in the private sector by *IAS 23 Borrowing Costs*. However, where public sector specificities make allocation of borrowing costs impractical, prohibitively expensive for the benefit obtained or would result in an accounting treatment that hampers faithful representation, we believe that an option should be available to immediately expense borrowing costs.

28. Accountancy Europe accepts that a choice in treatment of borrowing costs could reduce comparability between public sector bodies. However, comparability could be enhanced by detailed application guidance. It could also be potentially enhanced by either making the capitalisation of borrowing costs mandatory as in IAS 23 or by providing an option for the preparer to capitalise the costs, based on the specificities of how funding was received for the project and subject to appropriate disclosure.

Preliminary View 8—Chapter 3 (following paragraph 3.36)

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

29. We agree with the IPSAB's Preliminary View and the definition of transaction costs stated in that View.

Preliminary View 9—Chapter 3 (following paragraph 3.42)

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

30. We agree that transaction costs should be addressed for all IPSASs in a single location. As mentioned in the cover letter, on balance, we believe that transaction costs would be best addressed in IPSAS, Measurement.

Preliminary View 10—Chapter 3 (following paragraph 3.54)

*The IPSASB's Preliminary View is that transaction costs incurred when **entering** a transaction should be:*

- *Excluded in the valuation of liabilities measured at fulfilment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Included in the valuation of assets measured at historical cost and replacement cost.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

31. We agree with the Preliminary View stated above. We have some additional comments that are included under Preliminary View 11 as they are relevant to both PVs.

Preliminary View 11—Chapter 3 (following paragraph 3.54)

*The IPSASB's Preliminary View is that transaction costs incurred when **exiting** a transaction should be:*

- *Included in the valuation of liabilities measured at fulfilment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Excluded in the valuation of assets measured at historical cost and replacement cost.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

32. As with PV 10, we agree with the IPSASB's Preliminary View stated above. We believe that the IPSASB has come to the right conclusions as to the situations in which transaction costs should be included and excluded for both entering and exiting a transaction.

33. However, we believe that the process by which the IPSASB came to these PVs detailed in paras 3.43 to 3.54 is not easy to understand and is overcomplicated – for example, para 3.51 refers to the IPSASB's view that '*the timing of when the transaction cost is incurred also has an impact'* but it is not apparent from what follows in the section what the impact is or how it affects the accounting outcomes shown in Figure 3.1.

34. On the other hand, we believe that the relevant section of the ED (paras 24 – 28) may be oversimplified or that certain concepts may require additional explanation to be understood by all constituents.

35. For example, additional explanation as to how entry and exit values interact with measurement bases could be desirable, as is the impact on measurement bases as to whether transactions are entity-specific.

36. Additionally, in the draft ED there is no direct link between the general discussion of transaction costs and the more detailed guidance contained in the relevant appendices A to C. The table contained in Figure 3.1 of the CF could be useful as a summary of the treatment of transaction costs for the main measurement bases – at a bare minimum, we believe that the ED should refer to the relevant appendices where generic guidance on a particular measurement basis can be found.

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

37. We agree that the list of definitions appears to be exhaustive.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences

where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

38. With limited experience of IVS and GFS, we do not have a view on whether the IPSASB's conclusion is correct on the apparent similarities in measurement between IPSAS and these other standards.

39. We agree that the IPSASB should consider the relevance of the concept of Equitable Value and Synergistic Value to ascertain whether they could provide a more reliable measurement basis for specific public sector transactions.

40. However, we believe that there would need to be a clear benefit in using either basis over those already mentioned in the IPSAS Conceptual Framework and this CP, as merely adding them as alternatives for certain transactions is likely to increase complexity and reduce comparability in public sector financial reporting.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- *The Conceptual Framework Measurement Objective;*
- *Reducing unnecessary differences with GFS;*
- *Reducing unnecessary differences with IFRS Standards; and*
- *Improving consistency across IPSAS.*

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

41. We agree that the measurement flow charts provide a helpful starting point for the IPSASB when reviewing measurement requirements in existing IPSAS and in developing new IPSAS. The visual representation of the process helps provide clarity and the approach has proven to be useful in the past.

42. In respect of Diagram 4.1 (page 38), we believe that the choice of whether to use current or historical values is an important, and often complex, decision. We wonder, therefore, whether an additional process could be added at this stage indicating how the decision would be made. If is felt that an addition process would not benefit understanding, it would still be useful to have short guidance on the matter and / or a list of the points that would need to be considered in making the decision.



18 September 2019

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear John

Consultation Paper, *Measurement*

Thank you for the opportunity to comment on the Consultation Paper, *Measurement* (the CP). The CP has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

This letter identifies a number of issues which we think require further consideration by the IPSASB. We appreciate the IPSASB's commitment to the ongoing development of measurement concepts and their application and acknowledge that these issues are not easy.

The measurement project builds upon the IPSASB's ground-breaking work in developing Chapter 7 of the IPSASB's Conceptual Framework.[1] We appreciate that it takes time and effort to take the new ideas in a conceptual framework and apply them to standards. In addition, both the IPSASB and the IASB have continued to refine their views on measurement concepts and the application of measurement concepts in particular standards. This adds to the richness of measurement debates but it also adds to the challenge of developing measurement guidance that is consistent with an existing conceptual framework, or identifying what has changed since the framework was developed.

Notwithstanding our comments about the need to spend more time on some issues, we agree that in some instances it could be helpful to develop application guidance on measurement bases. This could include leveraging the work of the IASB where appropriate.

---

[1] *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, 2014. Also referred to as the Conceptual Framework in this letter.

We acknowledge the effort that has gone into this project and wish the IPSASB well as it progresses the project.

More conceptual thinking required

In our view, the IPSASB needs to prioritise work on its limited-scope review of the Conceptual Framework. One of the measurement project's stated objectives is to better align IPSAS with the Conceptual Framework. We do not think the IPSASB can meet this objective without first deciding what changes, if any, are required to the measurement chapter in the Conceptual Framework.

This need for more work is illustrated by the following proposals in the CP.

- The CP proposes to identify fair value, as defined in IFRS 13 *Fair Value Measurement*, as a measurement basis. This contrasts with the IPSASB's previous views. The IPSASB deliberately chose not to identify fair value as a measurement basis in its Conceptual Framework issued in 2014. The CP (paragraph 2.17) indicates that the IPSASB plans to address the challenge of incorporating fair value into IPSAS as part of its Conceptual Framework Limited-Scope Review project. We think that the IPSASB needed to address this matter first, before proceeding to develop a measurement standard. It is not clear why the IPSASB has changed its views on this matter, what this means for market value (being the measurement basis discussed in the Conceptual Framework) and what the implications will be on individual IPSAS that require or permit a current value measurement basis.
- The CP proposes to adopt much of the guidance in IFRS 13, including the guidance dealing with the use of the cost approach (also referred to as current replacement cost) as a valuation technique to estimate fair value. It also proposes to provide guidance on replacement cost as a separate measurement basis. If the IPSASB decides that fair value, as defined in IFRS 13, should be acknowledged as a measurement basis appropriate for IPSAS and supported by application guidance, the IPSASB will need to give more detailed consideration to a number of matters. It will need to differentiate between the use of the cost approach under fair value and replacement cost as a separate measurement basis, outline its views on when each would be appropriate and indicate how it intends to give effect to these views in standards, particularly in relation to the revaluation model in IPSAS 17 *Property, Plant and Equipment.* The CP (paragraph 2.17) does acknowledge that the IPSASB needs to further develop the relationship between replacement cost as a measurement basis and replacement cost as a measurement technique. We believe this work should have been done first and needs to be done before any guidance is finalised.
- The CP proposes to update the term *cost of fulfilment* currently applied in the IPSASB Conceptual Framework with *fulfilment value.* The CP states that this is to align with the terminology used in the IASB 2018 Conceptual Framework. Our view is that this is not merely a change in terminology. The illustrative ED proposes that *fulfilment value* should include a risk premium (also referred to as a risk adjustment). Although, the IPSASB Conceptual Framework is silent on this matter, the Basis for Conclusions on IPSAS 42 *Social Benefits* states that *cost of fulfilment* does not include a risk adjustment. The appropriateness of including a risk margin for the liabilities of public sector entities has been the subject of much debate in New Zealand. We think the IPSASB needs to consider in more detail whether it wants to adopt a measurement basis that includes a risk premium, why a risk premium is (or is not)

appropriate, how the risk premium should be calculated (in general terms) and any implications for existing standards.

Standards should not drive changes to a conceptual framework

The CP states that the proposed standard will focus on the measurement bases commonly used in IPSAS. This approach gives rise to a number of risks. There is a risk that current requirements rather than conceptual thinking will drive changes to the Conceptual Framework and the proposed measurement standard might be given undue prominence in setting standards-level requirements. Conceptual frameworks should guide debates during the development of standards. If recent projects have led the IPSASB to conclude that it disagrees with aspects of its Conceptual Framework we would like to see those issues outlined and debated.

Risk of unnecessary changes to standards based on IFRS® Standards

The IPSASB is proposing to develop a measurement standard that contains guidance on a number of measurement bases. We think this approach runs the risk of making unnecessary changes to some standards for little or no benefit as well as the risk of inadvertently changing meaning. This is especially so in the case of historical cost guidance in IPSAS, much of which is specific to the transactions and balances dealt with in those standards.

This proposal could also lead to unnecessary differences between IFRS Standards and IPSAS. This difference could impact on mixed groups that also include entities reporting under IFRS. Also, alignment with IFRS Standards allows constituents to draw upon the body of knowledge that has developed in support of those standards. We have concerns that even minor changes, which are not intended to create differences between the suites of standards, could lead preparers to think that there is an intentional difference and query the appropriateness of related IFRS guidance. We acknowledge that there are instances in which public sector specific changes may be warranted, but we cannot see any public sector specific reason for relocating or revising some measurement guidance.

Illustrative ED approach

The IPSASB has trialled a new approach with this CP and included an illustrative ED. The IPSASB hoped that this approach would provide constituents with a clearer view of the IPSASB's direction of travel, by showing how the ideas in the CP could be reflected in a draft IPSAS. We appreciate the IPSASB's intentions, but have not found this approach to be helpful. We would have found it more helpful if the IPSASB had developed a consultation paper in the usual way. We believe this approach has led to the omission of some important first steps, including undertaking the conceptual thinking we have highlighted above and consulting on these matters.

In addition, the partial nature of the illustrative ED has made it difficult to comment on the guidance. The amendments to other standards are critical to forming a view on the appropriateness of the measurement bases selected and the appropriateness and completeness of the proposed application guidance. A Basis for Conclusions is also essential for commenting on an ED.

Scope of the project

The *Project Overview* section of the CP notes the desirability, to the extent possible, of aligning measurement guidance with IFRS Standards, International Valuation Standards and Government Finance Statistics. We note that accounting standards are often applied in conjunction with the assistance of actuaries and suggest that the IPSASB also liaise with the International Actuarial Association.

The IPSASB has stated that it will not be considering amendments to the impairment standards in this project. Because the impairment standards refer to various measurement bases and approaches (including fair value and depreciated replacement cost) we think that these standards would need to be amended to be consistent with the proposed measurement standard.

Experience in applying IFRS 13

Although IFRS 13 *Fair Value Measurement* was developed for application by entities applying IFRS Standards, the majority of which have a profit objective, public sector entities in some jurisdictions, such as Australia and the United Kingdom, have also been required to apply IFRS 13 or equivalent requirements to certain assets. The way in which the relevant assets have been specified, the implementation issues encountered and the response of standard setters to those issues could inform discussions as the IPSASB moves forward with this project.

If you have any queries or require clarification of any matters in this letter, please contact Joanne Scott (joanne.scott@xrb.govt.nz) or me.

Yours sincerely



Kimberley Crook

Chair – New Zealand Accounting Standards Board

APPENDIX

Responses on Preliminary Views and Specific Matters for Comment

We have responded to PVs 1 to 7, SMC1 and SMC3. To the extent that we have commented on the PVs and SMCs, we have thought about the needs of public benefit entities (PBEs) in New Zealand, including both public sector and not-for-profit entities such as charities. We have referred solely to public sector entities in a few places – this is because we have more information about the views of public sector entities on certain issues.

Preliminary View 1—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View fair value, fulfillment value, historical cost and replacement cost require additional application guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Preliminary View 2—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

We have combined our responses to PV1 and PV2.

We have serious reservations about developing additional application guidance for measurement bases without having first thought through the application of the Conceptual Framework to the measurement of particular transactions and balances, and determined what this means for particular standards and whether any changes are required to the Conceptual Framework. Until the IPSASB has done this work, we are unable to agree with PV1 and PV2.

The IPSASB has indicated that it intends to undertake a Conceptual Framework Limited-Scope Review project. We think that this project needed to come first.

The proposed focus on the most commonly used measurement bases carries a risk that current requirements will drive the IPSASB's future decisions in determining an appropriate measurement basis, overshadowing the Conceptual Framework. Conceptual frameworks should guide debates during the development of standards. If recent projects have led the IPSASB to conclude that it disagrees with aspects of its Conceptual Framework we would like to see those issues outlined and debated. For example, we think the IPSASB needs to explain to constituents why the IPSASB chose to identify market value rather than fair value as a measurement basis in the Conceptual Framework and the IPSASB's views about how market value should be reflected in standards. If the IPSASB has

since decided that fair value is an appropriate measurement basis for IPSAS, then we think the IPSASB should explain to constituents when and how it thinks fair value rather than market value should be used in standards and how it plans to explain the relationship between fair value and market value in the Conceptual Framework. Or, if the IPSASB decides to remove market value from the Conceptual Framework, it needs to explain to constituents which aspects of its previous thinking have changed.

Our key point is that the IPSASB needs to give further consideration to the measurement bases that it thinks should be outlined in the Conceptual Framework and its views on when those bases should be used. Only then will the IPSASB be in a position to decide what guidance is required at standards level and whether some of that guidance should be included in a general measurement standard.

If the IPSASB decides to proceed to develop a measurement standard we have a number of concerns about the proposed application guidance – both in relation to location and content. These concerns are as follows.

(a) There is a risk that the proposed measurement standard will inappropriately stray into Conceptual Framework territory. It also runs the risk of inappropriately limiting future standards-level discussions or conflicting with current standards. For example, the IPSASB's views on the appropriateness of a risk premium in current value measures for liabilities needs to be thought through before developing any generic guidance. If the IPSASB considers that a risk premium might not be appropriate in some instances, then both the measurement bases identified and any generic guidance relating to that measurement basis should reflect this. The review of the Conceptual Framework needs to occur before, or at the same time as the development of the measurement standard, to make sure that the guidance is both appropriate and appropriately located.

(b) We are not convinced that all measurement application guidance belongs in one standard. Some of the existing guidance in IPSAS is transaction specific and would sit better in specific standards than in generic guidance. For example, we do not support the development of generic guidance on historical cost.

If the IPSASB's subsequent work on conceptual issues results in the conclusion that fair value, as defined by the IASB, is an appropriate measurement base to use in certain IPSAS (for example, the financial instrument standards), we agree that general application guidance on fair value would be useful. This would have the advantage of bringing additional guidance from IFRS 13 *Fair Value Measurement* into IPSAS and lead to better alignment between the discussion of fair value in IPSAS and IFRS Standards.

If the IPSASB decides to proceed with a general measurement standard (rather than developing an IPSAS that is equivalent to IFRS 13), we think the following two conditions could be used to identify application guidance that is appropriate for inclusion in a general measurement standard. The conditions are that the application guidance is:

(a) public sector specific; and

(b) sufficiently generic that it can be used in more than one standard.

Application guidance on the replacement cost of non-cash-generating assets is an example of guidance that is both public sector specific and can be used in more than one standard. It is relevant to both IPSAS 17 *Property, Plant and Equipment* and IPSAS 21 *Impairment of Non-Cash-Generating Assets*.

Application guidance on historical cost would not meet these conditions because there is little or no generic application guidance needed. We believe that much of the current application guidance on historical cost is best located in individual standards.[2] In addition, moving guidance on historical costs from individual standards to a general measurement standard would result in unnecessary changes to IPSAS and potentially unnecessary differences between IPSAS and IFRS Standards.

As discussed elsewhere in our comment letter, the proposed guidance on fulfilment cost/value needs further consideration. We do not believe that changing the term *cost of fulfilment* to *fulfilment value* is merely a change in terminology. The IPSASB needs to determine the appropriateness of a risk premium for the public sector before developing guidance on measurement bases.

General comments on PVs 3 to PV6

We have three general comments on PV3 to PV6.

(a) We do not understand why the IPSASB is seeking feedback about whether the draft appendices are *complete*. We think it would have been more appropriate to focus on whether constituents agree with the proposed guidance, with completeness being a secondary matter.

(b) Constituents would need to see the Basis for Conclusions on the proposed application guidance to provide informed comments.

(c) We cannot fully consider the usefulness of generic guidance on particular measurement bases without knowing more about when and how that guidance will be referred to in standards. Our views on the generic descriptions and the need for guidance on those bases could well be influenced by how these bases are applied in standards. Taking property, plant and equipment as an example, depending upon the type of asset and the purpose for which that asset is held, historical cost, fair value (as per IFRS 13) or replacement cost might be appropriate for different assets.

Preliminary View 3—Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

As noted in our comments on PV1 and PV2 we do not support the development of generic guidance on historical cost. In this case we think that the guidance is better located in individual standards. If

[2] This point is illustrated by paragraphs C15 and C17 on historical cost in the illustrative ED which clearly relate to property, plant and equipment rather than inventory.

the current guidance on historical cost were to be rewritten in the form of general guidance and transaction specific guidance, there is a risk of making inadvertent changes. However, it would be worthwhile to consider whether the existing guidance in various standards is consistent.

We note that the treatment of borrowing costs is an historical cost issue and that the discussion of historical cost should have included the borrowing cost discussion. Recent debates about which costs to include in the measurement of liabilities could also have been considered as part of a broader historical cost discussion.

We disagree with the IPSASB's assertion that historical cost is not applicable to liabilities (as per the footnote 38 to Appendix C, shown below). Historical cost is a possible measurement basis for liabilities, with some liabilities being measured at amortised cost. As noted in an AASB occasional paper (2013),[3] many liabilities do not have historical proceeds but, if the amounts of the proceeds attributable to a liability are clearly evident and the amount reflects the characteristics of the liability, historical cost could be a reasonable surrogate for exit-price or entity-specific value. The assertion that historical cost is not applicable to liabilities also seems inconsistent with Diagram 4.2 *Subsequent Measurement: Liabilities* which suggests that the IPSASB will consider historical cost as a measurement basis for liabilities.

> **Extract from CP, footnote 38 to Appendix C**
>
> This application guidance focuses on historical cost for assets, because the consultation paper's flow chart for liability measurement indicates that historical cost is not applicable to the measurement of liabilities. It does not address depreciation, amortization and impairment, because previous IPSASB decisions have indicated that these should be addressed in other IPSAS, rather than IPSAS, *Measurement*.

Preliminary View 4—Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

To the extent that, having done more conceptual thinking about how fair value sits within the Conceptual Framework and when it is appropriate within standards, the IPSASB decides that some IPSAS should require the use of fair value as defined in IFRS 13, fair value guidance aligned with IFRS 13 would be helpful for constituents. As noted earlier, in order to provided informed feedback on proposed fair value guidance we would need to understand how the IPSASB plans to incorporate fair value in the Conceptual Framework and the proposed amendments to standards.

If the IPSASB proceeds to issue application guidance on fair value, it will need to decide how to clearly differentiate between the use of the cost approach to determine fair value and replacement cost as a separate measurement basis. There is a risk of constituents being confused about the use of replacement cost in two contexts. Appendix A (paragraph A39) refers to current replacement cost in the discussion of the cost approach to determining fair value and Appendix D is about

[3] AASB Occasional Paper No. 1 *Liabilities – the neglected element: a conceptual analysis of the financial reporting of liabilities*, Warren J McGregor, Principal author, 2013

replacement cost as a measurement basis in its own right. Although these two terms are very similar they are talking about quite different measures. The cost approach in Appendix A has a different measurement objective to replacement cost as a measurement basis. Different terminology might be one way of avoiding confusion. The IPSASB will also need to clearly indicate in standards when they are referring to replacement cost as a separate measurement basis.

Addendum C of the CP shows that the IPSASB has not included the IFRS 13 guidance on non-performance risk (paragraphs 42 to 45 of IFRS 13) in the illustrative ED. Addendum C indicates that this guidance is potentially to be included in IPSAS 41 *Financial Instruments*. In the absence of a Basis for Conclusions outlining why the IPSASB has decided not to include such guidance in the illustrative ED and the IPSASB's views about the impact of omitting such guidance from the proposed measurement standard, we cannot form a view on whether this omission is appropriate.

Preliminary View 5—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfillment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfillment Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

We are unable to agree with the IPSASB's proposal to switch from *cost of fulfilment* to *fulfilment value* as a measurement basis as the CP has not explored the implications of this change. The CP states that the change in terminology is to align with the terminology used in the IASB 2018 Conceptual Framework. However, the proposals in the CP reflect more than a change in terminology and needed more in-depth consultation.

Fulfilment value, as described in the IASB 2018 Conceptual Framework, includes a risk premium. The risk premium (for a liability) is described as being "the price for bearing the uncertainty inherent in the cash flows". Paragraph 6.20 of the IASB 2018 Conceptual Framework clarifies that in the case of fulfilment value the risk premium is determined from an entity-specific perspective whereas in the case of fair value it is determined from a market-participant perspective.

Appendix B of the CP indicates that the fulfilment value of a liability is to include a risk premium (see paragraphs B12–B13 and B37 shown below – emphasis added).

> B12. The fulfillment value is an entity specific value. An entity shall measure the fulfillment value of a liability using the assumptions from the entity's perspective, assuming the entity acts in its own economic best interest.
>
> B13. In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability, considering factors specific to all the following:
>
> (a) The liability;
>
> (b) The entity's expectations about the amount and timing of future outflows of resources;
>
> (c) The time value of money; and
>
> (d) The risk that the actual outflow of resources may ultimately differ from those expected (i.e., a risk premium).
>
> …

> B37. An entity shall apply judgement when determining an appropriate risk adjustment technique to use. If a risk premium were not included, the measurement would not faithfully represent the cost to fulfill the liability. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.

This contrasts with the description of cost of fulfilment in the IPSASB Conceptual Framework which does not mention a risk premium. It also conflicts with the Basis for Conclusions on IPSAS 42 *Social Benefits* (see paragraph BC152 shown below) which states that *cost of fulfilment* does not include a risk adjustment.

> BC152. The IPSASB sought the views of respondents to the CP regarding a risk adjustment. Respondents generally considered that the cost of fulfillment measurement basis, which does not include a risk adjustment, was the most appropriate measurement basis for social benefits.

Given that the inclusion of a risk premium or risk adjustment in liability measures has been a much-debated topic in the public sector, the IPSASB needs to critically assess whether it wants to adopt a measurement basis that includes a risk premium, why a risk premium is appropriate, and from whose perspective the risk premium should be calculated.

Any change in the IPSASB's views about the appropriateness of a risk premium in an entity-specific liability measure would be a significant change that should be highlighted in due process documents.

In addition to wanting to know why the IPSASB is proposing to make this change, we would need to see the proposed amendments to other standards that could be affected by this change, such as IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* and IPSAS 39 *Employee Benefits*, before we could comment on the appropriateness of this guidance.

On a more detailed note, the proposed definition of risk premium in the CP is appropriate for fair value, but not for fulfilment value. Both fulfilment value and fair value require consideration of a risk premium, albeit from different perspectives.

Preliminary View 6—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Replacement cost is being used in two contexts

The IPSASB needs to consider more fully how it will clarify what it means by replacement cost as a measurement basis, how this differs from the use of current replacement cost (the cost approach) in estimating fair value and when each is appropriate. We would need to know the IPSASB's views on these matters before we could comment on the appropriateness of the proposed guidance on replacement cost.

In both cases an entity would be using cost information to arrive at a measure for financial reporting, but the measurement objective would determine what costs should be included. IFRS 13 has a

specific measurement objective – it discusses the use of the cost approach as a method to estimate fair value as defined in IFRS 13 (which is from the perspective of a market participant seller). Moreover, IFRS 13 is focused on the price that a market participant would be willing to pay to acquire the cash-generating-capacity of the asset, rather than its potential to provide public services (i.e. its service potential).

In summary, in order to apply the measurement requirements in IPSAS, constituents will need to know whether the measure is an entry or exit measure and whether it is intended to be entity specific or have a market participant focus. They also need to know whether to focus solely on an asset's potential to generate cash flows or whether to consider an asset's service potential. The distinction between assets held mainly for cash generation and assets held mainly for service potential may be one way of determining when the cost approach (as a method of estimating fair value) versus replacement cost (as a distinct and different measurement basis) are appropriate.

Comments on using DRC to estimate fair value (as currently defined in IPSAS)

IPSAS 17 permits the use of depreciated replacement cost as a means of estimating the fair value of an asset. When the NZASB introduced PBE IPSAS 17 *Property, Plant and Equipment* it noted that public benefit entities in New Zealand frequently use depreciated replacement cost to estimate the fair value of property, plant and equipment, including infrastructure assets. The NZASB noted that neither IPSAS 17 nor IPSAS 21 *Impairment of Non-Cash-Generating Assets* provide guidance on this topic at the level of detail previously provided in NZ IAS 16 *Property, Plant and Equipment*. The NZASB included additional application guidance on this topic in order to enhance the consistency of asset valuations in financial statements.[4] That guidance addressed specific issues that had arisen in practice.

In our view the application guidance that accompanies PBE IPSAS 17 more clearly addresses some of these issues than the proposed guidance in Appendix D. For example, Appendix D doesn't appear to cover the situation where the entity has to do extensive work to get land into a condition suitable for use and that use is specialised. We also note that paragraph D5 refers to "the current value of the existing site" but it isn't clear whether this is (i) the value of the current site, based on the current use or (ii) the highest and best use of that site. The additional guidance in PBE IPSAS 17 drew upon international valuation guidance available when PBE IPSAS 17 was developed.

In the interests of developing guidance that works internationally and is consistent with the international valuation standards, we encourage the IPSASB to continue to work with the International Valuation Standards Council.

[4] PBE IPSAS 17 is available on the XRB's website here

Preliminary View 7—Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. Do you agree with the IPSASB's Preliminary View? If not, please state which option you support and provide your reasons for supporting that option.

We do not agree with PV7. We acknowledge that it is common practice in the public sector, including the public sector in New Zealand, to expense borrowing costs. We also acknowledge that public sector entities borrow for purposes other than financing the construction of assets and could experience difficulties in identifying and allocating borrowing costs, over and above the difficulties experienced by large private sector groups applying IAS 23 *Borrowing Costs*.

However, we do not consider that the IPSASB has presented sufficiently strong arguments to eliminate the option in IPSAS 5 to capitalise certain borrowing costs. We note the following.

- There are conceptual arguments in support of capitalising borrowing costs. One can argue that if an entity has borrowed to finance the construction of an asset, including the borrowing costs during the period of construction gives a faithful representation of the cost of the asset.
- The argument that expensing borrowing costs leads to more comparable measurement of assets works in relation to self-constructed assets. However, expensing can lead to less comparable measurement of purchased versus constructed assets.
- Not all public sector entities experience the difficulties encountered by larger governments.
- Retaining the option would allow those entities that form part of mixed groups to select accounting policies that are consistent with IFRS Standards.
- Private sector preparers and users have expressed divergent views on the two options.[5] More research on the views of public sector preparers and users (including views about the importance of transparent reporting of total interest expense) would inform debates on this issue.

In our view, mandating the treatment of borrowing costs on initial measurement does not address the issue of what costs should be included in assets measured at fair value using the cost approach nor what costs should be included in a replacement cost measurement. Given the prevalence of depreciated replacement cost valuations in some jurisdictions this is an important issue. In the case of current value measures, the costs that are included depend upon the measurement objective. More guidance on the extent to which financing costs should be included in such valuations is required. We would encourage the IPSASB to work with the International Valuation Standards Council on this issue.

We also note that negative interest rates are becoming more prevalent and suggest that any work on the treatment of interest encompass this possibility.

---

[5] European Commission (May 2008), Endorsement of IAS 23 *Borrowing Costs*, Effect Study – Report https://ec.europa.eu/info/sites/info/files/ias23_effect_study_en.pdf

Preliminary View 8—Chapter 3 (following paragraph 3.36)

Preliminary View 9—Chapter 3 (following paragraph 3.42)

Preliminary View 10—Chapter 3 (following paragraph 3.54)

Preliminary View 11—Chapter 3 (following paragraph 3.54)

We have not commented on Preliminary Views PV8 to PV11.

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Given our earlier comments about the need for more work before proceeding with this ED, we are not commenting on SMC1 at this point.

When the IPSASB next seeks comments on proposed definitions for a measurement standard we recommend that it asks whether the definitions are appropriate, rather than exhaustive. We note that some of the definitions (for example, fulfilment value and inputs) are based on those in IFRS 13 and were developed for use in that standard. They would need to be changed to work with other measurement bases.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

We have not commented on SMC2.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors?
Please provide your reasons.

We do not agree. As mentioned in our cover letter, we think the IPSASB first needs to decide whether it is going to make any changes to the measurement bases in the Conceptual Framework, the objectives of those measurement bases and the circumstances in which their use would be appropriate.

Flow charts can be very helpful in project scoping and working through issues, and the flow charts in the CP may have been helpful as the IPSASB developed the CP. However, we have concerns about the potential risks of using the flow charts as a starting point for developing standards-level requirements.

- There is a risk that the flow charts will undermine the role of the Conceptual Framework.
- There is a risk that the flow charts could be inconsistent with the Conceptual Framework (to the extent that they incorporate more recent thinking).
- The flow charts highlight a broader debate on measurement (cost verses current value approaches) that has not been fully explored in the CP.
- Flow charts cannot capture all of the factors that might be relevant to consideration of measurement issues in a particular project. There is a risk that the use of the flow charts in a particular project could hinder debates.
- Although the IPSASB says it would consider the flow charts in conjunction with other matters such as reducing unnecessary differences with IFRS Standards, we are concerned that use of the flow charts could lead to these other factors becoming secondary considerations.
- The flow chart will not necessarily guide decision making. Different Board members might consider the matters identified on the flow chart and still come to different conclusions.

Other Comments

The AASB is currently looking at some issues associated with the application of AASB 13 *Fair Value Measurement* to public sector not-for-profit entities which may be of interest to the IPSASB. The AASB is proposing to develop illustrative examples to help public sector entities determine current replacement cost in accordance with AASB 13. The AASB has also been deliberating on whether the fair value of assets held for their service capacity should be determined differently from those assets held primarily for their ability to generate net cash inflows.

J.H.G. Milne, P.O. Box 28-045, Kelburn, Wellington 6150, New Zealand
Email: <jhg.milne@xtra.co.nz>

SUBMISSION to the INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
on the IPSASB '*MEASUREMENT*' CONSULTATION PAPER

Dear Sirs,

Introduction

1. This submission is made in my personal capacity.

2. I am a Chartered Accountant (now retired), former Chartered Company Director for private and public entities in New Zealand, former Member of the Wellington City Council Audit & Risk Committee for 11 years, and a 35 year career with the Shell Group of Companies in the United Kingdom, the Far East and in New Zealand.

3. Post-retirement, I received my PhD from the University of Sydney in Business Finance focussed on the (IFRS) Agriculture Standard resulting in support and input to successful representations by South-East Asian Standard Setters to the IASB for amendments to IAS 41 following thesis publication in 2011.

Summary

4. The thrust of the Submission is to consider the sufficiency of the Conceptual Framework ['**CF**'] for General *Purpose* Financial Reporting by Public Sector Entities, occasioned by experience in New Zealand and as a precursor to reflecting on the *'Measurement'* Consultation Paper ['**CP-M'**]).

5. These relate primarily to significant issues in the CF relating, *inter alia*, to the proposal to expense all borrowing costs and the treatment of transaction costs.

6. Separately, and prior to publication of the CP-M, I conducted a Case Study on the application of the IPSAS 5 '*Borrowing Costs*' Standard by all 78 New Zealand Local Government Authorities ['**LGAs**']. The Study highlighted issues with and varied application of IPSAS 5 as recently as the 2017/18 Income Year (although the issues were experienced over at least the previous decade). The Study, plus a subsequent letter from IPSASB member, Mr Todd Beardsworth, replying on behalf of the Controller and Auditor-General, are included for completeness as Attachments to this Submission.

Yours faithfully,



Signed: John Milne
24th September, 2019

J.H.G. Milne, P.O. Box 28-045, Kelburn, Wellington 6150, New Zealand
Email: <jhg.milne@xtra.co.nz>

1. Comments on the Conceptual Framework

1. I agree with most of the contents of the CF Preface especially the significance of '*legally mandated, compulsory non-exchange transactions*' (CF p.5, para 8), for service delivery and the differing objectives and roles of the Public vs. Private Sectors.

2. However, I wish, respectfully, to draw attention to the third bullet in para 2 of the CF Introduction: '*Therefore users of GPFRs of public sector entities need information to support assessments of such matters ... as the extent the burden on future-year taxpayers of paying for current services has changed*'. The statement whilst necessary is, in my opinion, insufficient.

3. In New Zealand, public entities are required to respond to NZ IPSAS Standards when preparing their auditable Financial Statements and Long- Term Plans and/or Budgets. These are mandated by legislation (*i.e.* the Local Government Act, 2002) for LGAs and the Public Finance Act 1989 for all Governmental entities, complemented by '*The Treasury Instructions*' issued under Sn. 80 of the latter Act[1].

4. For LGAs there are two governing principles (not always fully followed) for 'Inter-Generational Equity' ['**IGE**']. This has two legs; that, in principle:
   a) requires today's ratepayers to meet the costs of utilising an LGA's assets but does not expect them to meet the full cost of long-term assets that will benefit ratepayers in future generations; also
   b) ratepayers in future generations are not required to meet the present costs of deferred renewals and maintenance[2] [N.B. my emphasis].

5. The CF contains a passing reference to this IGE principle on p.65, para BC 5.39 as relating to '*the revenue and expense-led approach*' as opposed to the alternative '*asset and liability-led approach linked to the notion of changes in resources available to provide services in the future and claims on these resources as a result of period activity*'. Therein lie several issues.

6. First, there are several references throughout the CF about the fundamental differences between the Public vs. Private Sectors to which, generally, IPSAS and IFRS apply respectively; that is, '*the primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate return on equity to investors*' (*e.g.* CF p.2, para 2; p.4, para 2; *etc.*). In accepting this fundamental difference, IPSAS (and the CP-M) then treat **all** assets as though they are held for their service potential even though some will be and are held for commercial purposes. Is that realistic and/or appropriate? That distinction will be addressed below.

---

[1] The latest version is '*Treasury Instructions 2018*' (at //https//treasury.govt.nz/publications/treasury-instructions-2018) due for updating & re-publication in the next month or so for 2019.

[2] Refer to the Attachment "*IPSAS 5 'Borrowing Costs' and Inter-Generational Equity*" for fuller discussion on the Accounting Policy issues under IPSAS 5 in adhering to this principle.

J.H.G. Milne, P.O. Box 28-045, Kelburn, Wellington 6150, New Zealand
Email: <jhg.milne@xtra.co.nz>

7. Second, the significance of non-exchange transactions is a defining feature of the Public Sector whereby a public entity resource-provider receives value from service recipients without directly giving equal value in exchange. This may be implemented by legally-mandated, compulsory taxation legislation or mandated rate-raising powers for LGAs. This is complemented by annual Budgets and annual/long-term Plans within a general legislated requirement for 'balanced budgets' covering current and long-term operations and their financing[3]. Therefore, the inclusion of **all** borrowing and transaction costs without further qualification for 'Qualifying Expenditures' transgresses the IGE principle.

8. The effect is summarised in the Auckland City Council's ['**ACC's**] comparative commentary on the '*Main differences between IFRS and PBE (i.e. IPSAS) Accounting Standards*' (refer to Item 3: '*Borrowing Costs*' in Appendix 2 to the Attachment to the letter to the Chief Executive of the External Reporting Board. '*The impact of the difference results from the Group's property, plant and equipment value, and subsequent depreciation expense, being lower than they would be under IFRS. In addition, there is higher interest expense in the period in which qualifying assets are constructed'*. Therefore, current year rating revenues, all other things being equal, are set higher than otherwise needed in order to achieve requisite 'cost recovery'.

9. To extend this funding capability and non-accounting argument to its logical conclusion might suggest the weird proposition to start depreciation 'recovery' whilst a qualifying asset is being constructed, *i.e.* higher depreciation (and borrowing costs) in the current year with lower depreciation (borrowing) charges in future years post qualifying asset completion.

10. Offsetting this effect was a memorandum description, not recorded in the formal presentation of ACC's 2017/18 Financial Report Statements or Notes, referring to capitalisation of certain of cash payments to employees ($40mn.; Group $78mn.) to assets by reclassification from operating to investing activities[4].

11. Third, the CF contains an illuminating and apposite discussion about the Qualitative Characteristics of Relevance; Faithful Representation, including substance over form; Understandability and Comparability (CF Chapter 3). In particular, the comments '*like things must look alike and different things must look different [such that] comparability of information in GPFRs is not enhanced by making unlike things look alike any more than it is by making like things look different*' (CF p.31, para 3.23). This is relevant to the current CP-M discussion and proposals.

---

[3] For example, and by way of elaboration, New Zealand LGAs adhere to a Balanced Budget requirement ensuring each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses (Local Government Act, Sn. 100; complemented by a Long-term Plan (Sn. 93), an Annual Plan (Sn. 95), a Funding Impact Statement and Funding strategies (Sn. 30) - each expanded in Schedule 10 and all subject to audit by the Auditor-General (or his appointee).

[4] Probably(?) certain internal 'transaction costs' under the IPSAS 17 PP&E Standard. Or, as a cynic might wonder, to reduce the ACC's unbalanced budget to help offset a prospective rate-% increase.

J.H.G. Milne, P.O. Box 28-045, Kelburn, Wellington 6150, New Zealand
Email: <jhg.milne@xtra.co.nz>

12. The defining feature of Public Sector assets comprises assets with service potential for service delivery objectives to the public (a unique feature for IPSAS reporting) plus other assets of a more 'commercial' nature for which traditional IFRS definitions and rules should apply (*e.g.* a commercial parking building, toll road or participation in a public-private partnership, *etc.*) – but are not proposed for differentiation. The CF and CP-M treat these essentially different types of assets as the same when employed by a public sector entity - even if their character may change through time. For example, an operational work-in-progress asset is different from a completed asset – and indeed different accounting rules apply – although the IPSASB Diagram 4.1 decision-making Flow Chart appears not to recognise that possibility.

2. Borrowing Costs

1. Likewise, for Borrowing cost 'Qualifying expenditures'. This is a clearly defined IFRS term and concept dictating the capitalisation of associated borrowing costs during a construction pre-operational phase[5]. Under current IPSAS 5 accounting rules, and in practice, this is an optional treatment to recognise borrowing cost capitalisation, or not. For Governmental entities and the majority of LGAs the latter applies[6]. This is now the proposed treatment in the CP-M whether or not discrete borrowings are arranged to fund a specific qualifying asset. Therefore, there is a disconnect between expectations arising from general IFRS rules. In short, '*making like things look different*'.

2. This suggests that a blanket treatment of non-capitalisation of all borrowing costs is inappropriate. Rather, the distinction should be made when finalising the CP-M between 'service potential' assets; for which the CP-M proposal could apply (i.e. the Benchmark Treatment in IPSAS 5); whereas for IFRS-type 'commercial' assets, **or** in those circumstances where dedicated borrowing occurs for financing any 'service potential qualifying asset' these should require IAS 23 customary treatment; that is, without the ambiguous anomaly inherent in the IPSAS 5.15 'Benchmark Treatment' definition effectively, in practice, disqualifying use of the 'Allowed Alternative Treatment'.

3. If the proposal proceeds, there will need to be prompt consequential amendments to existing Standards (and parts of the Conceptual Framework?) - for example, and randomly, the specific reference in IPSAS 5 and IPSAS 17.36, and there are many others. This should occur prior to or simultaneously with the outcome of this CP-M process so as to avoid uncertainty (or gaming) over application of IPSAS Standards.

---

[5] N.B. Also, the Qualifying asset definition in each of IAS 23.5 and IPSAS 5.5 contains the phrase '*that necessarily takes a substantial period of time to get ready for its intended use ...*'. Since the period is not clearly defined local respondents have used this as a justification not capitalising borrowing costs.

[6] The *2018 Treasury Notes* p.21. Para 3.5.9.2 state for 'Capitalisation of borrowing *costs* ' *Generally, Government borrowings are not directly attributable to individual assets. Therefore, borrowing costs incurred during the period, including any that could be allocated as a cost [of?] completing and preparing assets for their intended use are expensed rather than capitalised*'. For LGAs refer to the 'IPSAS 5 'Borrowing Costs' and Inter-Generational Equity' Study attachment.

J.H.G. Milne, P.O. Box 28-045, Kelburn, Wellington 6150, New Zealand
Email: <jhg.milne@xtra.co.nz>

C. Transaction Costs

1. Arguably (and in reality) Qualifying asset borrowing costs pre-completion are an integral transaction cost covered by the proposed definition (CP-M p.28, para 3.36):

   'Incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued, or disposed of the asset or liability

   especially for 'commercial' type assets where there is equivalence to internal costs (refer the ACC case above), professional fees and especially transportation costs for an asset to reach the final location for the asset to be capable of operating.

2. It is easy to acknowledge the Option 1 preference (Paras 3.39-42) is an ambitious objective. Consideration may need to be given however for the special characteristics of financial assets and liabilities vs. operational assets and liabilities. As a sub-set of the latter, it is recommended consideration be given anyway to service potential vs. 'commercial' assets (and liabilities) for reasons outlined above. As an extension to this should be a strong preference for comparability between expectations of equivalent usage between major IPSAS and IFRS elements and their definitions – such that '*like things must look alike and different things must look different*' (CF para 3.23);

3. Matters not addressed

1. Sadly, it is a fact of life that the Public Sector is increasingly suffering from all kinds of natural disasters with considerable financial and accounting reporting significance and consequences for them – for example: the Christchurch and Kaikoura earthquakes (refer some of the consequences contained in the attached Study), the Fukushima tsunami, tornados, floods, eruptions....and other potential climate emergency events. These inevitably involve accounting recognition, revaluation and impairment (plus funding) issues for any destroyed or badly damaged public assets, repairing such impaired assets and the appropriate treatment of expected or actual insurance proceeds occurring over subsequent period/s. I recommend common application rules and accounting treatments be considered and promulgated within the proposed final Measurement Standard.

2. As possible guidance to and consideration by the IPSASB, New Zealand's '*Treasury Instructions 2018*' provides for these eventualities – refer pps. 35-36, paras 4.3.3 '*Losses arising from natural disasters*' and application of '*Insurance proceeds*' (para 4.3.2.1) in such circumstances.

3. Given the CF-M discussion is confined to physical assets, consideration ought also be given to the measurement treatment of certain *Intangible Assets* such as Computer Software and developments where their ubiquity is a special feature of Public Service operations and for which global common measurement definitions, processes and accounting treatment should be specified. Again, the treatment in New Zealand's *Treasury Instructions* on pps. 39-40 deserves consideration as part of the Measurement Standard consideration to ensure '*like things look alike*'.

J.H.G. Milne, P.O. Box 28-045, Kelburn, Wellington 6150, New Zealand
Email: <jhg.milne@xtra.co.nz>

E. Attachments

The Attachments to this Submission are in PDF format and comprise:

1. Letter dated 24th January, 2019, entitled '*IPSAS 5 Borrowing Costs & Inter-Generational Equity*' to Mr Warren Allen, Chief Executive, External Reporting Board with Attachments[7] [25 pages]:
   a. '*Main differences between IFRS and PBE Accounting Standards*' (extracted from the Auckland City Council 2017/18 Financial Report), and
   b. the WCC Finance, Audit & Risk Management sub-Committee Meeting letter dated 6th March, 2018, to Mr Kevin Lavery, CEO Wellington City Council (which triggered the whole IPSAS 5 Case Study letter to Mr Warren Allen).

2. Letter dated 24th January, 2019 entitled '*IPSAS 5 Borrowing Costs & Inter-Generational Equity*' to Mr John Ryan, Controller and Auditor-General and the reply on his behalf by Mr Todd Beardsworth, dated 5th April, 2019 [4 pages].

F. Requested Summary Comments on Preliminary Views (PV)

PV.7 – No. Refer Item B. above, with the recommendation that borrowing costs arising from qualifying assets pre-completion should be distinguished between service potential (therefore IPSAS – except for dedicated borrowings) and commercial attributes (therefore IFRS) rather all be lumped together conceptually, and therefore practically) as equivalent assets under IPSAS.

PV.8 - Yes.

PV.9 – Not necessarily. Refer C.2 above.

Specific Matter 1 – No, not sufficient. Recommend consideration also be given to what may loosely be termed as natural events and/or climate emergency damage, impairment and restoration (plus consequential multi-period Insurance proceeds); and, rather than focus solely on physical assets, consider including measurement and revaluation policies attributable to Intangible assets *e.g.* Computer software.

Specific Matter 2 – Recommend primary focus onto the better-known and more commonly understood IFRS definitions and policies so as to maximise CF and Measurement IPSAS consistency and decision-making objectives (such that *like things must look alike and different things must look different*) wherever possible, rather than further complicate with new or different definitions and practices associated with IVS and GFS, unless really necessary.

---

[7] I am advised this Study was forwarded to the IPSASB in Toronto but have no supporting information.

Phone: 0274-395-135
Email: jhg.milne@xtra.co.nz

PO Box 28-045,
Kelburn,
Wellington, 6150.
24th January, 2019.

IPSAS 5 'Borrowing Costs' & Inter-Generational Equity

Mr Warren Allen,
Chief Executive, External Reporting Board,
Wellington.

By E-mail

Dear Warren,

I have been critical about the lack of capitalisation of interest on 'qualifying expenditures' under the *IPSAS 5* 'Borrowing Costs' standard (and its predecessor/s) by the Wellington City Council (WCC) for a number of years for a number of reasons – each of which is expanded, as requested, in the Itemised Attachment:

1. Conflict with statutory responsibility of Tier-1 (and 2) Local Authority reporting entities relating to adherence to the inter-generational equity principle;
2. Optionality provisions in *IPSAS 5* compared to *NZ IAS 23*;
3. Variable financial reporting and auditing practice in New Zealand;
4. Actual and potential consequences for Rate-setting and possible audit solution;
5. Apparent justifications for prevailing local authority policy practice;
6. Conclusions; and
7. Recommendations for consideration by the XRB, the IPSASB and the Auditor-General.

Background to current research on this issue:

This research derives from my own studies into the WCC reporting entities and, latterly, to the whole Sector with the invaluable assistance of the NZ Taxpayers' Union.

My initial concern was expressed to the WCC Audit & Risk Management sub-Committee in 2010[1] as a potential audit and reputational risk issue. When I received the draft template for the WCC's 2017-18 Financial Statements I saw no change had occurred since my initial August 2010 recommendation to adopt interest capitalisation in relevant circumstances. Accordingly, I attended the WCC's Finance, Audit & Risk Management [FARMs] meeting last March to raise the issue again. Appendix 3 contains the original meeting request letter and rationale for this research.

Since then, I sought assistance from the NZ Taxpayers' Union to conduct a LGOIMA request to all Local Authorities to determine whether this was a unique WCC situation or reflected a wider issue around the country (Item 3 below) with consequences for Rate-setting (Item 4).

The importance of the role of Auditors in obtaining a consistent solution and principled outcome is a significant finding. Given the relevance of these findings and recommendations, this letter is also forwarded to the Auditor-General for his information and consideration. A hard copy follows.

Kind regards,
Dr John Milne

~~[for]~~ Mr Jordan Williams,
Executive Director, The New Zealand Taxpayers' Union
PO Box 10-518, The Terrace, Wellington

[1] Declaration of Interest: I was an Independent Member of the sub-Committee from 1997-2010

ATTACHMENT

1 Purpose of International Public Sector Accounting Standards (IPSAS)

The then Controller & Auditor General (Lyn Provost, 'the AG')[2] described the relevance and importance of differentiating IPSAS (for the Public Sector, including Local Authorities) from IFRS (for the Private Sector and for 'profit-oriented' entities) as contained in her 32 page Report to The House of Representatives in February 2016 entitled '*Improving Financial Reporting in the Public Sector*'.

This traces the evolution and framework of reporting Accounting Standards between the two Sectors. '*The new [Public Sector] Framework is designed so that financial reports will better meet the needs of users...for both public benefit entities* [PBEs] *and those for commercially focussed entities both of which are applicable to the public sector*' [p.4]. The associated legislative changes developed under the External Reporting Board [XRB] *are designed to make financial reporting by public entities* ***more useful and more relevant****, with a view to improving accountability and decision-making*' [p.4]. By so doing, '*public entities need to take advantage of the flexibility available within the new* (IPSAS) *Accounting Standards framework by* ***focussing on users' information needs and what matters most***' [p.4] (**emphasis added**).

In advocating new IPSAS standards relevant to the public sector, she believed '*this would result in reporting that could be used for decision-making and to properly hold public entities to account*' [para 2.21]. In general, she considered '*the PBE accounting standards provide a good platform for future financial reporting by public benefit entities in the public sector*' [para 4.17].

The thrust of this submission is that Users' information needs and what matters most include, for Ratepayers, understanding of and satisfaction that annual rates charged, and paid, are soundly based in terms of those Accounting Standards (and statutory requirements); capable of determination transparently and consistently across the Sector, and applied consistently between Local Authorities; all subject to consistent audit assurance – in this case by the AG, and Auditors appointed by him - that '*the information a public entity reports materially complies with those accounting standards and fairly* presents *the performance of the entity for the period that the financial report covers*' [para 1.21]'.

This submission contends that, unfortunately, this is not the case for the accounting treatment of 'borrowing costs' under IPSAS 5 – such that, the financial statements across Local Authorities – but in particular the Tier 1 City Councils – are inconsistent because the accounting treatment of borrowing costs does not always follow the IPSAS 5 accounting principles and these inconsistencies are apparently acquiesced by auditors.

Before developing this further, there is a major difference to note between financial reporting and standards for PBEs in Australia. In principle, both countries have sought to align their accounting standards onto a common harmonised basis. This applies for the '*for profit sector*' under IFRS '*to help build a more competitive and productive economy*' [para 3.16] *e.g.* for stock market listings.

Thus, as you are aware, City Councils in Australia currently report under IFRS, whereas those in New Zealand adopt IPSAS[3] for Tier 1 (or 2) reporting entities.

---

[2] Now John Ryan; approved by Parliament in April 2018.

[3] However, with the recent changes foreshadowed in the IFRS framework it becomes possible the two may converge onto IPSAS.

2.1 Inter-Generational Equity

The principal objective of WCC's *Equity Management* is maintained, as for the last decade, in the WCC's 2017/18 Financial Statements (refer p.211):

> *'The Local Government Act 2002 ('the Act', 'the LGA')* ***requires*** *the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the* ***current and future interests of the community****. Ratepayer funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings* **[emphasis added]**.
>
> ***'The objective of managing these items is to achieve intergenerational equity, which is a principle promoted by the Act and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets but does not expect them to meet the full cost of long term assets that will benefit ratepayers in future generations.*** *Additionally, the Council has* ***asset management plans*** *in place for major classes of assets, detailed renewal and programmed maintenance...****These plans ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.***

As another example, The Christchurch City Council describes the inter-generational equity principle similarly, but adds:

> *'The Act requires the Council to make adequate and effective provision on its LTP* [Long Term Plan] *and in its Annual Plan (where applicable) to meet the expenditure needs identified in those plans. The Act also sets out factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and level of funding are set out in the funding and financial policies of the LTP*, (CCC 2017/18 Financial Statement Notes, para. 31 'Capital Management', p.212).

The Act also requires the Long Term and, where appropriate, the Annual Plan be audited. The Auditor is the AG (LGA.70) or an Auditor appointed by him – usually Audit New Zealand.

These inter-generational equity principles described, *e.g.* for 'borrowing costs', are consistent with their obverse whereby, for example, the WCC's Accounting Policy for '*Depreciation*' (Note 8, p.170) reflects that whilst an asset is incomplete and unable to contribute resources or save expenses there is no depreciation charge in a current year, nor until such time as it is ready-for-use. Just as, where these occur, current year costs for deferred renewals and maintenance are not 'capitalised' to be met by future ratepayers (see above).

Moreover, the Auckland Council (AC) in its 'Basis of reporting' (2017/18 Annual Report, Vol 3, p.12) notes (by way only of a memorandum note) that certain cash payments to employees (Council 2018: $40mn, Group $78mn) were capitalised to assets by reclassification from operating to investing activities. There is no other reference, elaboration or reconciliation in AC's Financial Statements. Nor was any other equivalent example observed for other City Councils.

Before considering the implications of the inter–generational equity principle it is appropriate to consider how *IPSAS 5* (for New Zealand Local Authorities) and *AASB 123*[4] (for Australian Local Authorities) defines the accounting treatment of 'borrowing costs' under respective generally accepted accounting practice [GAAP] rules.

---

[4] Equivalent to IFRS IAS 23 and NZ IAS 23 'Borrowing Costs'

2.2 Optionality in *IPSAS 5* vs *NZ IAS 23* on Treatment of 'Borrowing Costs'

2.2.1 Definitions under *IPSAS 5*

'**Borrowing costs** are *interest and other expenses incurred by an entity in connection with the borrowing of funds*';
'Qualifying asset' is *an asset that necessarily takes a substantial period of time to get ready for its intended use or sale' (IPSAS 5.5).*

'The **'Borrowing Costs - Benchmark Treatment'** (*IPSAS 5.14)* states:

> *'Borrowing Costs shall be recognised in the period in which they are incurred'. IPSAS 5.15* states *'Under the benchmark treatment, borrowing costs are recognised as an expense in the period in which they are incurred, regardless of how the borrowings are applied'.* And, *IPSAS 5.16* requires *'disclosure of the accounting policy be adopted for borrowing costs.'*

In the case of the WCC, Note 6 *'Finance Expense'* states *'All Borrowing Costs are expensed in the period in which they are incurred' (p.167)'.* [*N.B.* Refer to Item 3 below for the relevant accounting policy for all other Local Authorities].

Equally valid, especially where major 'qualifying expenditures' in scale, type of assets and significance or materiality are concerned is the *IPSAS 5.17* **'Borrowing Costs - Allowed Alternative Treatment'** whereby:

> *'Borrowing costs **shall** be recognised as an expense in the period they are incurred, **except to the extent they are capitalised and in accordance with IPSAS 5:18*** (which states) ***'Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying assets shall be capitalised as part of the cost of that asset'*** **[emphasis added].**

IPSAS 5.19 adds that *under this treatment, such borrowing costs are capitalised as part of the cost of the asset when*

a. *it is probable that they will result in future economic benefits or service potential, and*
b. *the costs can be measured reliably.*

Other borrowing costs are recognised as an expense in the period in which they are incurred.

However, *IPSAS 5.20* goes on to state 'where an entity **adopts the allowed alternative treatment**, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity' [**emphasis added**].

In other words, in practice, if a Local Authority chooses preferentially to adopt the 'Benchmark Treatment' then it appears that no borrowing costs relating to qualifying assets are capitalised. It is doubtful this practice is what the Standard Setters intended. By contrast, NZ IAS 23 has no such optional exclusion for capitalising borrowing costs on qualifying expenditures.

In the case of the WCC, their *'Property, Plant & Equipment'* Note 18 states the current Policy is *'Borrowing costs incurred during the construction of property, plant and equipment are not capitalised'* (p.185) without any further qualification. Thus, the accounting treatment currently adopted by the WCC appears to be at odds with its stated over-riding principle of adhering to inter-generational equity specified under its *Equity Management* objective.

2.2.2 Definitions under *NZ IAS 23 for For-Profit entities*

'***Borrowing* costs are interest and other costs that an entity incurs in connection with the borrowing of funds**';

'**A *qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale'** (*IAS 23.5*).

Under *NZ IAS 23*, the **'Core Principle'** is that:

> ***'Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense'***.

For recognition *IAS 23.8* identifies that:

> ***'An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them'***.

IAS 23.10 adds 'The b*orrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.*

To all intents and purposes, the definitions in each Standard are the same – apart from the recognition policy linkage between expensed and capitalised borrowing costs. Thus, there appears to be no good reason why the GAAP capitalisation principles in NZ IAS 23 should not also apply to IPSAS 5 accounting capitalisation principles for consistency reasons to avoid any ambiguity or optionality anomaly.

It should be noted here that current IASB Member, Professor Ann Tarca identified that the IASB sought to remove all optionality from their IFRS suite of Standards during the 2001-3 period when she surveyed the IASB's development of IFRS from 2001 during her October 2018 Chambers Memorial Lecture at The University of Sydney.

Thus New Zealand Local Authority responders to *IPSAS 5*, unlike those in Australia utilising AASB 123, have optionality[5] whether to identify and reflect the consequences of borrowing for 'qualifying expenditures' in their financial statements - or simply to ignore them. And, that is what occurs, with only a few exceptions.

This study will demonstrate that actual practice on applying the *IPSAS 5.17+18* capitalisation principle is very varied across the sector – refer Item 3 below with the apparent acquiescence of the Office of the Auditor General.

[5] Per IPSAS 5.20, further confirmed in Appendix 2, p.20 below, for the Auckland Council.

2.3 Borrowing Costs eligible for capitalisation

2.3.1 The capitalisation requirements in ***NZ IAS 23*** are contained in clauses *23.10-15.* Cl. *23.12* covers (net) borrowings for an eligible specific qualifying asset for which capitalisation is appropriate; or, where funds are used from general borrowings, the capitalisation rate shall be a weighted average of the borrowing costs to all borrowings of the entity that are outstanding during the period (excluding any specific borrowings, nor exceeding the total amount of total borrowings) until such time as the (qualifying) asset is ready for use (*23.14*).

Moreover, in some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs. In other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings *(23.15)*. It is a matter of judgment.

These principles are well understood for the *For-Profit* sector entities, and by their Auditors. Indeed, in the case of the WCC, its 34% holding in Wellington International Airport Limited (managed by Infratil Limited) applies this interest capitalisation principle in respect of the new hotel/parking building complex 'qualifying expenditures' now under construction at the airport. However, unlike for the Dunedin City Council, such different treatment is not adjusted by the WCC when preparing its consolidated Group financial statements to conform to the WCC's own current formal 'non-capitalisation' borrowing costs Accounting Policy.

2.3.2 On the other hand, the requirements of ***IPSAS 5.21-29*** are more varied and open to interpretation and/or provide differences in practice. These are couched in terms of borrowing costs that would have been avoided if outlays on a qualifying asset had not been made (*5.21*). Identification of the direct relationship of borrowings to qualifying expenditures may be difficult where, for example, financing is coordinated centrally, where there is a range of differing debt instruments, where there are capital grants, or low/no inter-entity interest advances made to controlled entities within the entity group (*5.22*).
However, it should be noted that all these possibilities are quite standard practice for the *For-Profit* sector and applied satisfactorily under ***NZ IAS 23.11*** for consolidated group entities, when subject to audit.

2.3.3 *IPSAS 5.*26-27 covers a range of interest capitalisation treatments (or lack of them) for inter-entity advances relating to qualifying asset expenditures between a controlling and controlled entities and which entity **may** account for what, individually or whether or where consolidated, or not at all.
These ambiguities, complexity and lack of clear 'rules' (unlike in *NZ IAS 23*) probably accounts for the findings in Item 3 below. That is, that virtually all Local Authority entities in New Zealand fail to recognise the GAAP definitional principles relating to 'qualifying expenditures' under *IPSAS 5.5*, and therefore, when adopting the *IPSAS 5.14* 'Benchmark Treatment', any interest on borrowings which finance 'qualifying expenditures' are not capitalised at all.

This has direct consequences contrary to the inter-generational equity principle and for Local Authority rate-setting responsibilities. These are covered in Item 4 below.

3 Variable Local Authority financial reporting (and auditing) practice in New Zealand

The Taxpayers' Union sent out a LGOIMA request last October to all Local Bodies *i.e.* Regional, Local and District Authorities. The table below summarises the replies. It also identifies the Auditor entities appointed by the Auditor-General (AG).

TABLE 1 - Local Authority Auditors, Borrowing Costs Accounting Policy per IPSAS 5,

Auditor	AG or Audit NZ		Deloitte or EY		Total
IPSAS 5.14 Benchmark 5.17 Alternative	Expensed	Capitalised	Expensed	Capitalised	
City Councils	12	1	-	1	14
District Councils	42	-	10	1	53
Regional Councils	7	-	1	3	11
Total	**61**	**1**	**11**	**5**	**78**

Source: LGOIMA Requests and Annual Reports - 2017/18 Financial Statements

Our findings are that only six Local Authority Councils have adopted the *IPSAS 5.17 'Allowed Alternative Benchmark* (interest capitalisation) *Treatment'*. They comprise the Dunedin and Porirua City Councils, the Gisborne District Council and the Otago, Southland and Taranaki Regional Councils respectively (refer Table 2 on p.9 for the full City Councils' list and Table 3 in Appendix 1 for all District and Regional Councils).

The AG and Audit New Zealand (on behalf of the AG) audits 62 of the total 78 Local Authorities. All, adopt the '*Benchmark Treatment*' non-capitalisation option (IPSAS 5.14) except one – the Dunedin City Council. Those **not** audited by Audit New Zealand are subject to AG out-sourced term contracts conducted by either Deloitte or EY. Five of these 16 auditees adopt the capitalisation '*Alternative Benchmark Treatment*' (IPSAS 5.17).

The fourteen City Councils reported interest expenses totalling $579 million in 2017/18 (2016/17: $545mn). In the same periods, the reported annual City Councils Work-in-Progress figures were $1.52 billion for 2017/18 (2016/17: $1.18 billion) for expenditures extending beyond the 30th June financial year – refer Table 2 below.

Effectively, twelve City Councils are taking advantage of *IPSAS 5.20* optionality without the necessity of determining whether asset expenditures meet the '*Qualifying Expenditure*' definitional criteria for interest capitalisation. Taken together, it is extraordinary that the predominance of the '*Benchmark Treatment*' for borrowing costs prevails when there are now so many potentially '*qualifying expenditure*' capital projects underway, or in prospect, across the Sector.

Indeed, mid last year the WCC amended its Long Term Plan (LTP) Policy statement by extending their Liability Management period from a rolling 12 months forecast period, adopted hitherto, to a ten year horizon. This was because '***with significant capital investments [due] throughout the LTP period, debt is forecasted to go up...***(LTP, p.168)....***with increasing debt levels over the 2018/28 Long-Term Plan period'.***

A further recent example was reported in the Dominion Post (pp. 1-2 on 13th November) for the building strengthening and renovations plus seismic up-grading of the St James Theatre with costs rising from an initial LTP budget of $17mn to a revised $33mn. Theatre reopening is scheduled for September 2020. There must be a *prima facie* case for this project to constitute qualifying expenditure. However,

Councillor Young was reported as stating[6] *"the increased costs wouldn't impact ratepayers significantly. The project was capital expenditure so the money would be borrowed, spreading the cost burden over 50 years"*. This, of course, refers to the annual Depreciation expense; but **not** to the related project borrowing costs under the WCC's current 'borrowing costs' Accounting Policy, whereby the $2-3mn in interest costs pre-completion would be charged to current ratepayers when determining the council's annual rates levy basis within its balanced operating budget requirement.

In short, the WCC would not be adhering fully to its inter-generational equity objective; nor to the *IPSAS 5.17* Standard requirement, since whilst the newly built St James Theatre asset (as defined in IPSAS 5.5) is under construction, prior to use, etc. and is financed specifically by and/or is incurring general borrowing costs (as the WCC's LTP outlines) *'to meet additional demand', to improve the level of service*' and even '*to replace (some) existing assets*. As a result, those borrowing costs on such work-in-progress should in principle be capitalised under inter-generational equity (but possibly subject to relevant materiality) to the individual asset/s concerned until such time they are 'ready for use'.

Other recent media reported examples include the Auckland Council's $113mn (current) forecast for the Americas Cup Village development in the Wynyard precinct and the Wellington City Council's potential $2.2mn funding for the $4.2mn Sports Hub at the Alex Moore Park in the Northern Suburbs.

The conclusion must be that the AG and Audit NZ **A**uditors (including Auditors contracted to the OAG) are acquiescing in exclusively allowing the expensing optionality afforded to the 'Benchmark Treatment' *(IPSAS 5.14*), rather than the definitional 'qualifying expenditure' criteria envisaged in *IPSAS 5.5*. This is developed further in Item 4 below.

Whilst there are recognised differences between the *For-Profit* and *Public Benefit Entity* Sectors – as set out comprehensively in the AG's February 2016 Report *"Improving Financial Reporting in the Public Sector"* - there is no reference to the consequences for appropriate financial reporting for consistency for rate- (or tax-) setting responsibilities for the Public Sector, nor to the general inter-generational equity principle established by Parliament to the LGA.

This has consequences for Local Authority rate-setting activities and their annual reporting of Net Surpluses/Deficits (Item 4 below).

[6] After being briefed by the WCC CFO.

TABLE 2

CITY COUNCILS – Their Auditors, Borrowing Costs Accounting Policy per IPSAS 5, Annual Current Works-in-Progress and Annual Interest Costs

City Council	Auditor	Interest Expensed/ Capitalised	WIP # 2018	WIP # 2017	Interest 2018	Interest 2017
			$ 000s	$ 000s	$ 000s	$ 000s
Auckland ##	AG	Expensed	432,000	399,000	391,000	364,000
Christchurch ø	Audit NZ	Expensed	407,615	336,818	89,342	82,072
Dunedin	**Audit NZ**	**Capitalised**	15,947	20,177	11,900	13,075
Hamilton	Audit NZ	Expensed	71,485	71,706	10,835	10,772
Hutt	Audit NZ	Expensed	45,534	25,937	6,767	5,857
Invercargill	Audit NZ	Expensed	7,473	2,668	2,869	2,738
Napier	Audit NZ	Expensed	17,111	17,404	1,539	1,295
Nelson	Audit NZ	Expensed	16,468	7,720	4,320	4,217
Palmerston North	Audit NZ	Expensed	32,938	21,001	5,846	6,223
Porirua	**EY**	**Capitalised**	36,123	15,953	3,529	3,284
Rotorua Lakes	Audit NZ	Expensed	39,702	23,250	7,618	7,008
Tauranga	Audit NZ	Expensed	191,550	125,186	19,159	18,920
Upper Hutt	Audit NZ	Expensed	6,501	7,709	1,468	1,674
Wellington	Audit NZ	Expensed	197,693	106,482	23,062	22,958
Total			1522,140	1181,011	579,254	545,003

Source: 2018 Annual Reports – City Council Audited 2017/18 Financial Statements

- **#** Annual Work-in-Progress at 30th June.
- **##** By contrast, the Auckland Council reported it had capitalised certain other cash payments to employees within operating expenditures by reclassification to investing activities to better align the nature of the underlying cash flows: *i.e.* $40mn in 2018 (Group: $78mn), Vol 3, p.12.
- **ø** Following the aftermath of all the December 2013 earthquake sequences the Christchurch City Council (CCC) commissioned two major independent advisory Financial Reports by:
  - **KordaMentha** to undertake an assessment of the financial estimates and assumptions underpinning the city's three year Plan adopted in June 2013; and
  - **Cameron Partners** in 2014 to look at the performance of Christchurch City Holdings Ltd and Council-owned trading organisations. The scope of the resulting report was widened to consider all capital and operational expenditure by the Council with the aim of providing residents with a full picture of the Council's financial position, and options for dealing with it.

  More specifically, these were to consider funding and rating options to ameliorate the CCC's increased required capital expenditure renewal programmes, resulting increased debt liabilities, funding covenant restrictions and financing requirements and associated rating consequences.

  Neither Report considered the implications of the CCC's current borrowing cost 'expensing' (*IPSAS 14*) Accounting Policy [vs. interest 'capitalisation' per *IPSAS 17*] to help alleviate financial reporting and rating pressures, nor associated inter-generational equity principles.

4. Actual and potential consequences for Rate-setting and for 'over-charging' current ratepayers

4.1 - General principles and consequences

The underlying principle of the LGA rate-setting mechanism under the Long Term Plan (LTP) is that Local Authorities are to maintain (on average and over time) a balanced net surplus/deficit after covering all planned operating expenditures, including depreciation and interest.

The Act specifies Local Authorities prepare an LTP (LGA. 93) that:

- for each year covers up to 10 consecutive financial years ahead[7];
- sets out the rating criteria and rules to apply including for budgets and financial planning;
- per Schedule 10, requires the accounting policies and assumptions, forecast annual income statements, balance sheets and sources & disposition of funds, forecast capital expenditure for groups of activities, and a comprehensive Funding Impact Statement (LGA. 30) prior to the start of the financial year (and following consultation with ratepayers);
- must be audited (LGA.93, 94, 99); and
- The Auditor-General (AG) is auditor of all council-controlled organisations (LGA.70).

The AG (or his appointed Auditor) has significant statutory responsibilities and opportunities for achieving consistency of reporting and practice across the Sector – not only for financial reports but also, most unusually, for future financial plans. In practice this is not as consistently applied as might be expected and, perhaps, as Parliament probably intended, especially consequential on the inter-generational equity principle and as it relates specifically to borrowing costs.

As a consequence, Audit and Auditors are an integral part of a principled process and solution.

Thus. when setting an annual rate levy, **current** Ratepayers are (by 'Benchmark Treatment' accounting policy definition, which pre-dominates) being charged on a cash spent or accrued basis in the annual budgeted rate-calculations for non-capitalised borrowing costs on work-in-progress qualifying capital expenditures which, by definition, will benefit future ratepayers. Non-capitalised interest should instead be recovered from future rate payers via the annual depreciation charge on the enhanced asset value under the inter-generational equity principle.

For most Local Authorities, virtually all current ratepayers are being **over**-charged, to a greater or lesser extent, in current rating levy calculations and rating levy-% increases. The inter-generational equity statutory principle is not being upheld, notwithstanding, for example, the WCC claims to do so in its '*Equity Management*' objective. Likewise, for most other Local Authorities.

Alternatively, the result is the underlying budgeted (or actual) Surplus on Operations is **under**-stated for a current year because the Rates expenditure recovery levy calculation is **over**-stated via an interest non-capitalisation policy; or, alternatively, rating-% increases are higher than they should be. Magnified over the whole country this would result in significant over-rating by Local Authorities, especially those undertaking new major capital projects – as is occurring; and, this at a time when interest rates are at historically relatively low levels – but forecast to increase in future years.

---

[7] An exception has occurred for the Kaikoura District Council, post-the November 2016 earthquake, for a three-year unaudited plan until June 2021. Refer also to the discussion in Item 4.3, p12 below.

4.2 - Accounting Policies on Borrowing Costs

As noted previously, and recorded in the Tables in Item 3 above, Accounting Policy statements for 'Borrowing Costs' are not consistently applied across all Local Authorities depending on whether they adhere to whichever of the *IPSAS 5.14* or *IPSAS 5.17* options.

4.2.1 - Benchmark Treatment

The predominant basis is to expense all borrowing costs under *IPSAS 5.14*. The policy is expressed basically as-

> *"Finance costs comprise interest payable on borrowings calculated using the effective interest rate method. Interest payable on borrowings is recognised as an expense in surplus or deficit as it accrues"* (Christchurch City Council 2017/18 Annual Report)

The 'expensiing' option narration is derived from the Audit NZ 'Model Financial Statements' template for "Te Motu District Council 2016/17". This was issued by their Executive Director in June 2017. The supporting narration notes *'[t]hese model financial statements have been developed for local authorities that use the public benefit entity (PBE) accounting requirements for Tier 1 and Tier 2 entities...The 2017 update to the model financial statements for local authorities* ***focuses on improving the presentation and disclosure of the financial statements to improve communication to readers [*****emphasis added****]***'.

The recommended Audit NZ Accounting Policy template Note reads: ***Finance costs per PBE IPSAS 5.17***[8]***:*** *'Borrowing costs are recognised as an expense in the financial year in which they are incurred.*

4.2.2 - Allowed Alternative Treatment

Representative examples of the IPSAS 5.17 accounting policy narration are as follows:

Dunedin City Council [Audit NZ]

Borrowing costs are usually recognised as an expense in the period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Porirua City Council [EY]

Borrowing costs are recognised as an expense when incurred, except borrowing cost directly attributable to the construction of a qualifying asset which are capitalised as part of the cost of that asset.

Gisborne District Council [EY]

Borrowing costs (except borrowing costs incurred as a result of capital work) are recognised as an expense in the period in which they are incurred. When the construction of assets are [sic] loan funded, all borrowing costs incurred as a result of the capital work are capitalised as part of the total cost of the asset up until the point where the asset enters service.

Southland Regional Council [Deloitte]

Borrowings are recorded initially at fair value, net of transaction costs. Borrowing costs attributable to qualifying assets are capitalised as part of the cost of those assets.

Taranaki Regional Council [Deloitte]

All borrowing costs are expensed in the period they occur, except to the extent the borrowing costs are directly attributable to the acquisition, construction, or production of qualifying assets. These shall be capitalised as part of the cost of the asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

---

[8] The template refers erroneously to IPSAS 5.17 (being the capitalisation – 'Allowed Alternative Treatment'), whereas the Model's recommended narration Policy Statement actually relates to the IPSAS 5.14; the expensing 'Benchmark Treatment'...!

4.3 - Unintended Accounting Policy Consequences for Earthquake-hit Local Authorities.

From Table 2, the earthquake-hit Christchurch and Wellington cities have some of the highest work-in-progress, interest and (rising) debt levels in the country. However for the Tier 2 earthquake-struck Kaikoura District Council the problem was so dire that Parliament was obliged to pass a special Act to waive most LGA requirements *(e.g.* the audited LTP and Annual Financial Statements)[10].

In these circumstances the *IPSAS 5.17* Standard should be mandatory given the exceptional rebuilding of essential infrastructural water, waste-water, roads and other significant community assets. In the case of Kaikoura, for instance, the increased rateable levy (including borrowing costs) have basically doubled, even quadrupled for some. Capital expenditures have increased from approx. $3mn in the 2017/18 LTP to $19.95mn in the first year of the three-year plan, dropping to $12.2mn in the 2019/20 year, before reverting to $2.7mn in the 2020/21 year. Increased borrowings (and various other special grants) are a manifestation of the inter-generational equity principle by spreading the funding and subsequent repayments over future ratepayers who benefit. But not for actual borrowing costs incurred.

It should be noted for Kaikoura there is a further anomaly in the 'borrowing costs' accounting policy carried forward from pre-earthquake years. Those audited financial statements note:

> *The financial statement have* [sic] *been prepared in accordance with Tier 2 PBE Accounting Standards Reduced Disclosure Regime, on the basis that the Kaikōura District Council have expenses of more than $2 million and less than $30 million, and is not publicly accountable. These financial statements comply with PBE Standards.*

Yet the Accounting Policy for Borrowing Costs in its pre-earthquake Annual Report was recorded as:

> *'Council has elected to defer the adoption of NZ IAS 23 Borrowing Costs (Revised 2007) in accordance with its transitional provisions that are applicable to public benefit entities. Consequently, all borrowing costs are recognised as an expense in the period in which they are incurred.* [*i.e.* equivalent to the IPSAS 5.14].

4..4 - Auckland Council Accounting Policy

From Table 2 by far the largest level of $-work-in-progress and interest costs across all Local Authorities is attributable to the Auckland Council. Although not stated, and contrary to the IPSAS 5.16 disclosure requirement (and practice for most other Local Authorities), borrowing costs are expensed as incurred. The actual borrowing costs policy is worded as:

> *'Finance costs include interest expense, the unwinding of discounts on provisions and financial assets; and net realised losses on the early close-out of derivatives. Interest expense is recognised using the effective interest method. Included in interest expense is interest on drawn debt and interest rate swaps, and the amortisation of borrowing costs'* (AC 2017/18 Annual Report, Vol. 3, p. 22).

Given intended significant long-term capital budget plans and commitments, the lack of recognition of any *qualifying expenditures* appears contrary to the intent and definitions in the IPSAS 5 Standard. Thus, given a general 'balanced budget' statutory requirement, it is highly likely Auckland ratepayers are incurring higher rate levies and rate increases because of non-capitalisation of borrowing costs attributable to debts incurred on any such qualifying expenditures.

It is reported that the Mayor has stated the AC is virtually at its debt ceiling absolute and relative covenants which is a further benefit of some interest capitalisation. Moreover, as noted earlier, it has not prevented the AC from capitalising $40mn of certain operating expenses, notwithstanding no expressed associated accounting policy, nor any associated explanation or reconciliation of gross (vs. net) expenditures.

---

[10] Under the *Hurunui/Kaikōura Earthquakes Recovery Act 2016* and the *Hurunui/Kaikōura Earthquakes Recovery (Local Government Act 2002—Kaikoura District 3-Year Plan) Order 2018* – all Audit provisions have, or appear to have been suspended until no later than June 2021.

5. Justifications for current practice for a non-'borrowing costs' capitalisation policy

When the matter was raised with the WCC at their March 2018 FARMS meeting (refer Appendix 3), the CFO replied subsequently with, *inter alia*, the following points in favour of the WCC's practice of not recognising capitalisation of borrowing costs:

5.1 The AG's report in 2009[11] outlined concerns with capitalisation of borrowing costs in the public sector and noted:

- capitalisation of general borrowings in the public sector is both complicated and arbitrary, and therefore unlikely to enhance the reliability of general purpose financial reports;
- there is no clear way to incorporate a component of borrowing costs into revaluations (sic) of most significant public sector assets, which is likely to make asset revaluations less reliable;
- any benefits of capitalising borrowing costs are significantly outweighed by the compliance costs of initial capitalisation and subsequent revaluation of assets.

These points have been addressed above. This presents little difficulty for the *For-Profit* sector and exhibits a strange view about asset revaluing processes post-recognition. As a consequence, it also raises some uncertainty about the extent to which diminution of fair values features in local authority financial statements, such as for 'white elephant' capital assets or where a Local Authority has greatly exceeded budgets for (presumably) previously justified capital expenditures *(e.g.* the Kaipara District Council Waste Water Plant project; the Island Bay Cycle Way project).

In any case, each of the above objections is discussed and covered in *IPSAS 5.21-29.*

5.2 Other summarised reasons advanced for non-capitalisation of borrowing costs:

5.2.1 Borrowing is done at Council level and not attributed to individual assets. The WCC notes too Treasury do not capitalise borrowing costs in the Government's Accounts for this reason. Their Policy is quoted as '*Generally, Government borrowings are not directly attributable to individual assets. Therefore, borrowing costs incurred during the period, including any that could be allocated as a cost of completing and preparing assets for their intended use are expensed rather than capitalised*' – *i.e.* not recognising *IPSAS 5.18* at all;

5.2.2 If WCC were to adopt that alternative treatment it would require the capitalisation of borrowing costs for all qualifying assets -*i.e.* no apparent recognition of any auditable and realistic materiality policy criteria;

5.2.3 Claimed to be difficult where, for example, expenditure replaces an asset, such as with social housing and infrastructure asset renewals and/or when funded from depreciation extending for 50-100 years for some assets. '*It would be extremely administratively cumbersome, if not impossible to calculate the amount of borrowing (if any] associated with a particular asset'.* Therefore, no capitalisation occurs as policy - notwithstanding proclaimed adherence to the objective of inter-generational equity and the provisions of IPSAS 5;

---

[11] Attributed Source: The Auditor-General's views on Setting Reporting Standards for the Public Sector – June 2009

5.2.4 *'Even if the amount of borrowings associated with an asset could be calculated the calculation of how much interest to capitalise would also be complex as we have different debt instruments with different rates and at any point of time we could have cash reserves which generate interest income'. N.*B. This is covered in *IPSAS 5.25*;

5.2.5 *'Although discussions with our valuer have determined that it may be possible to factor in borrowing costs it would make the revaluation of PP&E assets extremely complex if some assets included borrowing costs and some didn't as inputs into the valuation would be different'.*

This raises the question whether IPSAS 17 has different 'rules' for Measurement after Recognition as those contained in *NZ IAS 16.* Likewise, post-completion, whether any interest capitalisation ought to be factored into a revaluation exercise anyway;

5.2.6 *'We are not aware of any other local authorities, or indeed any public sector organisations, in New Zealand that are capitalising borrowing costs'* – but refer Item 3 above where six Local Authorities, two of which are Cities, already have the policy to capitalise borrowing costs per IPSAS 17. *'if we were to capitalise borrowing costs it would reduce comparability among local authorities.*
N.B. This assumes comparability assessment/s occur now, refer Table 1 on p.7 – but, if so, for what meaningful purpose;

5.2.7 *'Even if other local authorities chose to capitalise borrowing costs the definition of a 'qualifying asset' is subjective* ***as there is no guidance in the Standard as to what constitutes a 'substantial period of time' [emphasis added]*** *and the amount of borrowings to attribute to an asset could also be subjective if there are multiple debt instruments involved and there are other sources of funding e.g. depreciation.'.*
This is notwithstanding these matters are already covered in IPSAS 5;

But if not, and to avoid uncertainty, then the XRB/IPSASB should reconsider as a matter of urgency the established definitions and relevant content of the *IPSAS 5* Standard vs IAS 23 - in conjunction too possibly with the Auditor-General for his forthcoming LTP and Financial Reporting audits.

6. Conclusion

The Auckland Council's 2017/18 Annual Financial Statements (audited by the Deputy Auditor-General) includes a very helpful summary *'Main differences between IFRS and PBE Accounting Standards'* (AC, Vol 3, pps.109-112)[12]. The purpose is to identify the key differences in recognition and measurement between Public Benefit Entity [PBE] Accounting Standards, applicable to the Auckland Council/Group, and IFRS for annual periods beginning on or after 1 July 2017. There are four PBE Accounting Standards with a comparable IFRS equivalent, and seven Standards that are ascribed as having no IFRS equivalent or where the IFRS equivalent is not comparable.

The *'Borrowing Costs'* Standard is in the former category. It reads **[emphasis added]**

> *'**PBE***
> *PBE IPSAS 5 Borrowing Costs **permits** PBEs **to either capitalise or expense borrowing costs** incurred in relation to qualifying assets. A qualifying asset is defined in PBE IPSAS 5 "as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". The Group's accounting policy is to expense all borrowing costs. As a consequence, borrowing costs are not included in the original cost or revaluations of qualifying assets.*
> ***IFRS***
> *IAS 23 Borrowing Costs requires capitalisation of borrowing costs incurred in relation to qualifying assets. The definition of a qualifying asset is identical to the definition in PBE IPSAS 5*
> ***Impact***
> *This difference results in the Group's property, plant and equipment value, and subsequent depreciation expense, being lower than they would be under IFRS. In addition, there is **higher interest expense in the periods in which qualifying assets are constructed**.'*

Thus, and without any further comment on the ambiguity involved, 'qualifying assets', as defined in IPSAS 5.5, are ignored by the Auckland Council/Group entity when adopting IPSAS 5.14 full expensing as its formal Accounting Policy. Thus, the LTP basis for the annual rate levy calculation is over-stated to the detriment of ratepayers under the inter-generational equity principle.

Moreover, this summary pays only lip service, but not practice, by Council (and its Auditor) to the inter-generational equity principle established in the LGA by Parliament. This is best described by the Christchurch City Council (and others) in its *Capital Management* statement (p.212):

> *'**Intergenerational equity***
> *The Council's objective is to manage the balance between rating (for funds) and borrowing to achieve intergenerational equity, which is a principle promoted in the Act and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets but does not expect them to meet the full cost of long term assets that will benefit ratepayers in future generations. Additionally, Council has in place asset management plans for the renewal and maintenance programmes of major classes of assets to ensure ratepayers in future generations are not required to meet the costs of deferred renewals and maintenance.*
> *The Act requires the Council to make adequate and effective provision in its LTP and in its Annual Plan (where applicable) to meet the expenditure needs identified in those plans. The Act also sets out factors that the Council is required to consider when determining the most appropriate sources of funding for each of its activities. The sources and level of funding are set out in the funding and financial policies of the Long Term Plan.'*

---

[12] Copy attached within Appendix 2, on p.20 below.

7. Recommendations for consideration by the XRB and IPSASB, with the Auditor-General

Local Authorities have the responsibility for (inter alia):

- integrity and appropriateness of internal and external reporting and accountability arrangements; and
- independence and the adequacy of the internal and external audit function.

From the foregoing there are anomalies and inconsistencies in adhering to the *IPSAS* 5 Reporting Standard and to meet the principles, spirit and requirements of the Local Government Act 2002, including the inter-generational equity principle. **These are matters for consideration and implementation by each of the XRB, IPSASB and the Auditor-General for principled consistency**.

Recommendations: the XRB considers urgently with the IPSASB (and the Auditor-General):

7.1 the definition of 'Qualifying Expenditure' in IPSAS 5 (and NZ IAS 23) be reviewed and 'tightened up' for consistency of application and practice, and removal of ambiguity, [*e.g.* IPSAS 5.20] as to recognition, measurement, period of capitalisation and materiality criteria;

7.2 the optionality afforded by IPSAS 5.20 should be removed such that (as in NZ IAS 23) there is only one 'Accepted Treatment'; namely as set out in a renamed IPSAS 5.14 (as amended) as 'The Accepted Treatment', such that IPSAS 5.17+18 becomes redundant;

7.3 Whether the Auckland Council's IPSAS vs IFRS comparisons (in Appendix 2) suggests some modification/s to clarify PBE Standards for accuracy and consistency of application;

Also, that the XRB clarifies with the Auditor-General as a matter of urgency, and with the objective to help ensure Councils adhere to the statutory LGA inter-generational equity principle:

7.4 the Audit NZ Reporting template text be amended (for accuracy) to include provision

- for 'qualifying expenditures' by reflecting IPSAS 5.5 definitions, and the recommended revised IPSAS 5.14 'Accepted Treatment' (per Recommendation 7.2 above);
- the resulting policy be amended **from** '*All Borrowing Costs are expensed in the period in which they are incurred*' **to** a policy narration incorporating capitalised interest on 'qualifying expenditures' – *e.g.* such as accepted by Audit NZ for the Dunedin City Council:

  '*Borrowing costs are usually recognised as an expense in the period in which they are incurred.*

  Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale';

7.5 as a suggestion, and as a matter of urgency, the Auditor-General include in his forthcoming 2018/19 annual Audit Instruction Letter to his appointed Auditors, and Local Authority auditees:

- An updated formal 'borrowing cost' Accounting Policy, as indicated above;
- Local Authorities be requested to identify in their auditable draft LTP/Annual Plan/ Financial Statements, and in its associated Funding Impact Statement, any appropriate 'qualifying capital expenditure/s' with its/their associated funding; so that the associated borrowing costs are excluded as capitalised interest from the amount otherwise calculated to be raised by the annual Rates income levy. The 'Surplus/(Deficit) of Operating Funding' is therefore reduced (by lower borrowing costs) with compensating increase/s in the Capital Expenditure line item/s (or as a separate line item) so that the net Funding Balance 'bottom line' remains unchanged. The adjustments will therefore properly reflect the inter-generational equity principle contained in the LGA, as mandated by Parliament, and in any Local Authority *Equity Management* statements.

Appendix 1

Table 3 – District & Regional Local Authorities Auditor & Borrowing Costs Treatment

DISTRICT COUNCILS – Their Auditors, 'Borrowing Costs' Accounting Policy per IPSAS 5,

District Council	Auditor	Interest Expensed/ Capitalised
Ashburton District Council	Audit NZ	Expensed
Buller District Council	Audit NZ	Expensed
Carterton District Council	Audit NZ	Expensed
Central Hawkes Bay District Council	Audit NZ	Expensed
Central Otago District Council	Audit NZ	Expensed
Chatham Islands Council	Audit NZ	Expensed
Clutha District Council	Audit NZ	Expensed
Far North District Council	Audit NZ	Expensed
Gisborne District Council	**EY**	**Capitalised**
Gore District Council	Audit NZ	Expense
Grey District Council	Audit NZ	Expensed
Hastings District Council	Audit NZ	Expensed
Hauraki District Council	Audit NZ	Expensed
Horowhenua District Council	Audit NZ	Expensed
Hurunui District Council	Audit NZ	Expensed
Kaikoura District Council #	**Audit NZ #**	***Expensed***
Kaipara District Council	*Audit* NZ	Expensed
Kapiti Coast District Council	Audit NZ	Expensed
Kawerau District Council	Audit NZ	Expensed
Mackenzie District Council	Audit NZ	Expensed
Manawatu District Council	Audit NZ	Expensed
Marlborough District Council	Audit NZ	Expensed
Masterton District Council	Audit NZ	Expensed
Matamata-Piako District Council	Audit NZ	Expensed
New Plymouth District Council	Audit NZ	Expensed
Opotiki District Council	Audit NZ	Expensed
Otorohanga District Council	**Deloitte**	**Expensed**
Queenstown-Lakes District Council	Audit NZ	Expensed
Rangitikei District Council	Audit NZ	Expensed
Ruapehu District Council	Audit NZ	Expensed
Selwyn District Council	Audit NZ	Expensed
South Taranaki District Council	Audit NZ	Expensed
South Waikato District Council	**Deloitte**	**Expensed**
South Wairarapa District Council	Audit NZ	Expensed
Southland District Council	Audit NZ	Expensed
Stratford District Council	Audit NZ	Expensed
Tararua District Council	Audit NZ	Expensed
Tasman District Council	Audit NZ	Expensed
Taupo District Council	Audit NZ	Expensed

Thames-Coromandel District Council	Audit NZ	Expensed
Timaru District Council	Audit NZ	Expensed
Waikato District Council	Audit NZ	Expensed
Waimakariri District Council	Audit NZ	Expensed
Waimate District Council	Audit NZ	Expensed
Waipa District Council	Audit NZ	Expensed
Wairoa District Council	**EY**	**Expensed**
Waitaki District Council	Audit NZ	Expensed
Waitomo District Council	**Deloitte**	**Expensed**
Western Bay of Plenty District Council	Audit NZ	Expensed
Westland District Council	Audit NZ	Expensed
Whakatane District Council	Audit NZ	Expensed
Whanganui District Council	Audit NZ	Expensed
Whangarei District Council	Audit NZ	Expensed

REGIONAL COUNCILS – Their Auditors, 'Borrowing Costs' Accounting Policy per IPSAS 5,

Regional Council	Auditor	Interest Expensed/ Capitalised
Bay of Plenty Regional Council	Audit NZ	Expensed
Canterbury Regional Council	Audit NZ	Expensed
Hawke's Bay Regional Council	Audit NZ	Expensed
Manawatu-Whanganui Regional Council	Audit NZ	Expensed
Northland Regional Council	**Deloitte**	**Expensed**
Otago Regional Council	**Deloitte**	**Capitalised**
Southland Regional Council	**Deloitte**	**Capitalised**
Taranaki Regional Council	**Deloitte**	**Capitalised**
Waikato Regional Council	Audit NZ	Expensed
Wellington Regional Council	Audit NZ	Expensed
West Coast Regional Council	Audit NZ	Expensed

Source: LGOIMA & 2018 Annual Reports – District & Regional Council Audited Financial Statements

Pursuant to the *Hurunui/Kaikōura Earthquakes Recovery Act 2016* & the *Hurunui/Kaikōura Earthquakes Recovery (Local Government Act 2002—Kaikoura District 3-Year Plan) Order 2018* – all Audit provisions have or appear to have been suspended until no later than June 2021.

Appendix 2

Main differences between IFRS and PBE Accounting Standards

Introduction

Under the New Zealand Accounting Standards Framework, public sector public benefit entities (PBEs) apply PBE Accounting Standards. The New Zealand Accounting Standards Framework defines public benefit entities (PBEs) as reporting entities "whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders". Many public sector entities are classified as PBEs. Auckland Council Group (the Group) is classified as a public sector PBE for financial reporting purposes and therefore the financial statements of the Group have been prepared in accordance with PBE Accounting Standards.

The PBE Accounting Standards are primarily based on International Public Sector Accounting Standards (IPSAS). IPSAS are based on IFRS but are adapted to a public sector context where appropriate, by using more appropriate terminology and additional explanations where required. For example, IPSAS introduces the concept of service potential in addition to economic benefits in the asset recognition rules, and provides more public sector specific guidance where appropriate. This is in contrast with IFRS that are written for the for profit sector with capital markets in mind.

Set out below are the key differences in recognition and measurement between PBE Accounting Standards applicable to the Group and IFRS (applicable to annual periods beginning on or after 1 July 2017). Differences that impact only on presentation and disclosure have not been identified.

PBE Accounting Standards with comparable IFRS equivalent

1. Formation of Auckland Council Group

PBE

PBE IFRS 3 Business Combinations contains a scope exemption for business combinations arising from local authority reorganisations. This scope exemption is carried forward from NZ IFRS 3 (PBE) Business Combinations, the standard that was applicable to the Group at the time it was formed on 1 November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities. Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the Group using the predecessor values of those assets and liabilities. The initial value at which those assets and liabilities were recognised by the Group is deemed to be their cost for accounting purposes.

IFRS

Without the scope exemption, the amalgamation of the predecessor local authorities into the Group would have been accounted for as a business combination under IFRS 3 applying the acquisition method. Under the acquisition method, an acquirer would have been identified and all of the identifiable assets and liabilities acquired would have been recognised at fair value at the date of acquisition.

Impact

The impact of the above accounting treatment is that the carrying value of the assets and liabilities received were not re-measured to fair value and no additional assets and liabilities such as goodwill and contingent liabilities, or a discount on acquisition were recognised as would have been required if the transaction was accounted for as a business combination under IFRS 3.

2. Property, plant and equipment

PBE

In accordance with PBE IPSAS 17 Property, Plant and Equipment, PBEs are required to account for revaluation increases and decreases on an asset class basis rather than on an asset by asset basis.

IFRS

IFRS requires asset revaluations to be accounted for on an asset-by-asset basis.

Impact

Decreases on revaluation will be recognised in operating surplus except to the extent there is sufficient asset revaluation reserves surplus relating to the same class of assets under PBE Accounting Standards, and relating to the same asset under IRFS. This difference could result in higher operating results under PBE Accounting Standards where there is a decrease in the carrying value of an asset. This is because, to the extent that there is sufficient revaluation surplus in respect of the same asset class (as opposed to the same asset), the Group recognises a revaluation decrease in asset revaluation reserves.

3. *Borrowing costs*

PBE

PBE IPSAS 5 Borrowing Costs permits PBEs to either capitalise or expense borrowing costs incurred in relation to qualifying assets. A qualifying asset is defined in PBE IPSAS 5 "as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". The Group's accounting policy is to expense all borrowing costs. As a consequence, borrowing costs are not included in the original cost or revaluations of qualifying assets.

IFRS

IAS 23 Borrowing Costs requires capitalisation of borrowing costs incurred in relation to qualifying assets. The definition of a qualifying asset is identical to that definition in PBE IPSAS 5.

Impact

This difference results in the Group's property, plant and equipment value, and subsequent depreciation expense, being lower than they would be under IFRS. In addition, there is higher interest expense in the periods in which qualifying assets are constructed.

4. Impairment of Assets

PBE

PBEs apply PBE IPSAS 21 Impairment of Non-Cash-Generating Assets or PBE IPSAS 26 Impairment of Cash-Generating Assets, as appropriate to determine whether a non-financial asset is impaired. PBEs are therefore required to designate non-financial assets as either cash generating or non-cash-generating. Cash-generating assets are those that are held with the primary objective of generating a commercial return. Non-cash-generating assets are assets other than cash-generating assets.

The PBE Accounting Standards require the value in use of non-cash-generating assets to be determined as the present value of the remaining service potential using one of the following: the depreciated replacement cost approach; the restoration cost approach; or the service units approach.

Under the PBE Accounting Standards property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment.

IFRS

IFRS does not provide specific guidance for the impairment of non-cash-generating assets. The value in use of an asset or a cash generating unit is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The guidance in IAS 36 Impairment of Assets applies to all property, plant and equipment, including those measured at fair value.

Impact

Assets whose future economic benefits are not primarily dependent on the asset's ability to generate cash and may not be impaired under PBE Accounting Standards because of the asset's ability to generate service potential might be impaired under IFRS due to limited generation of cash flows. The Group's asset values may therefore be higher under PBE Accounting Standards because some impairment may not be required to be recognised, that would be required to be recognised under IFRS. Further, the value in use of an asset may be different under PBE Accounting Standards due to differences in calculation methods. Finally, the fact that property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment under the PBE Accounting Standards has no significant impact because these assets are subject to sufficiently regular revaluations to ensure that their carrying amount does not differ materially from their fair value.

PBE Accounting Standards that have no IFRS equivalent / IFRS equivalent is not comparable

The following standards provide guidance on the same or similar topics but are not directly comparable. The comparison below identifies the key recognition and measurement difference.

5. Revenue from non-exchange transactions

PBE

The PBE Accounting Standards require revenue to be classified as revenue from exchange or nonexchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Non-exchange transactions are transactions that are not exchange transactions.

PBE IPSAS 23 Revenue from Non-Exchange Transactions deals with revenue from nonexchange transactions. The Group's non-exchange revenue includes revenue from general rates, grants and subsidies.

Fees and user charges derived from activities that are partially funded by general rates are also considered to be revenue arising from nonexchange transactions.

The Group recognises an inflow of resources from a non-exchange transaction as revenue except to the extent that a liability is also recognised in respect of the same inflow. A liability is recognised when a condition is attached to the revenue that requires that revenue to be returned unless it is consumed in the specified way. As the conditions are satisfied, the liability is reduced and revenue is recognised.

IFRS

IFRS does not have a specific standard that deals with revenue from non-exchange transactions. IAS 20 Accounting for Government Grants and Disclosure of Government Assistance contains guidance relating to the accounting for government grants. Under IAS 20, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate. In the case of grants related to assets, IAS 20 results in setting up the grant as deferred income or deducting it from the carrying amount of the asset.

Impact

Compared to IAS 20, the Group's accounting policy may lead to earlier recognition of revenue from nonexchange transactions; and may also result in differences in asset values in relation to grants related to assets.

As a result of adopting PBE IPSAS 23, the timing of recognising the group's rates revenue has changed to recognise annual general rates revenue as at the date of issuing the rating notices for the annual general rate charge resulting in the entire rates revenue being recognised in the interim financial statements of the Group. This is contrary to the Group's previous accounting policy under NZ IFRS PBE to recognise general rates revenue throughout the annual period. The impact of this difference increases the reported general rates revenue and net assets in the interim financial statements of the group however it has minimal impact on the recognition of revenue and net assets reported in the Group's annual financial statements.

6. Service Concession Arrangements (also known as Public Private Partnership Arrangements)

PBE

PBE IPSAS 32 Service Concession Arrangements deals with the accounting for service concession arrangements from the grantor's perspective. Service concession arrangements are more commonly known as Public Private Partnership (PPP) arrangements. Broadly, service concession arrangements are arrangements between the public and private sectors whereby public services are provided by the private sector using public infrastructure (service concession asset). PBE IPSAS 32 requires the grantor (public entity) to recognise the service concession asset and a corresponding liability on its statement of financial position. The liability can be a financial or other liability or a combination of the two depending on the nature of the compensation of the operator. A financial liability is recognised if the grantor compensates the operator by the delivery of cash or another financial asset. A non-financial liability is recognised if a right is granted to the operator to charge the users of the public service related to the service concession asset (liability for unearned revenue).

IFRS

IFRS contains no specific guidance addressing the accounting by the grantor (public entity) in a service concession arrangement. However, IFRS contains guidance for the operator's accounting (private entity).

Impact

Applying IFRS to service concession arrangements would not result in a significant impact on the Group's financial position or financial performance as, in absence of specific guidance in NZ IFRS, prior to the adoption of PBE Accounting Standards, NZ practice has been to 'mirror' the accounting treatment of the private entity under IFRS which is consistent with the requirements of the PBE Accounting Standards.

7. Consolidated Financial Statements

PBE

PBE IPSAS 6 Consolidated and Separate Financial Statements includes guidance on assessing control to determine whether an entity should be included within the consolidated financial statements of the parent company. It also specifies the accounting treatment for interests in other entities in the separate parent financial statements.

IFRS

IFRS 10 Consolidated Financial Statements contains guidance on assessing control using principles similar to those in PBE IPSAS 6 and provides additional guidance to assist in the determination of control where this is difficult to assess. IAS 27 Separate Financial Statements specifies the accounting treatment for interests in other entities in the separate parent financial statements.

Impact

The Group does not believe that the application of IFRS 10 would result in more or fewer entities being consolidated than under PBE IPSAS 6.

8. Joint Arrangements

PBE

PBE IPSAS 8 Joint Ventures defines three types of joint ventures: jointly controlled assets, jointly controlled operations and joint ventures.

IFRS

IFRS 11 Joint Arrangements focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures.

Impact

The Group does not believe that the application of IFRS 11 would result in a material change to the Group's results and net assets.

9. Fair Value Measurement

PBE

There is no specific standard in the PBE Accounting Standards, however a number of PBE Accounting Standards contain guidance on the measurement of fair value in specific context (for example PBE IPSAS 17 Property, Plant and Equipment and PBE IPSAS 29 Financial Instruments: Recognition and Measurement).

IFRS

IFRS 13 Fair Value Measurement does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Impact

The application of IFRS 13 may result in differences in the measurement of certain property, plant and equipment compared to PBE IPSAS 17 and financial assets and liabilities compared to PBE IPSAS 29.

10. Employee Benefits

PBE

PBE IPSAS 25 Employee Benefits is based on IPSAS 25. IPSAS 25 is based on IAS 19 Employee Benefits (2004).

IFRS

IAS 19 Employee Benefits (2011) introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits compared to IAS 19 (2004). The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year.

Impact

The Group has no material defined benefit obligations and therefore there is no impact on its financial performance and financial position.

APPENDIX 3

9 Upland Road,
Kelburn,
Wellington, 6012.
6th March, 2018.

WCC FINANCE, AUDIT & RISK MANAGEMENT Sub-COMMITTEE (FARMS) Meeting at 9.30am on Wednesday, 7th March, 2018

Mr Kevin Lavery,
CEO, Wellington City Council,
Wellington.

Dear Mr Lavery,
I hereby give notice of my wish to address the above meeting during Public Participation on the following Issue relating to Agenda item 2.1.

The Issue raised is whether the Draft 2018 Financial Statements being presented (attached to the Meeting Agenda):

- meet the principles, spirit and requirements of the Local Government Act 2002, including one of the IPSAS formal Accounting Standards, and the principles contained in the Financial Statements for preparing them;
  and taken together
- potentially expose the Council to Audit Risk of non-compliance and/or for a qualified External Audit Statement by Audit New Zealand.

These issues are covered in more detail in the Attachment.

However, as background reference for the foregoing, I note from the Agenda the FARMS has responsibility for (inter alia):

- integrity and appropriateness of internal and external reporting and accountability arrangements; and
- independence and the adequacy of the internal and external audit function.

If you have any query beforehand, please advise; otherwise I would appreciate your confirmation of receipt of this application to attend and address the Meeting under Public Participation.

Thank you,
Yours sincerely;



(Dr) John Milne (Ratepayer)
Mobile: 0274-395-135

ATTACHMENT.

The principal objective of WCC's *Equity Management* is outlined in Agenda 2.1 p.76:

> *'The Local Government Act 2002 (the Act)* ***requires*** *the Council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the* ***current and future interests of the community****. Ratepayer funds are largely managed as a by-product of managing revenues, expenses, assets, liabilities, investments, and general financial dealings* ***[my emphasis]****.*
>
> ***'The objective of managing these items is to achieve intergenerational equity, which is a principle promoted by the Act, and applied by the Council. Intergenerational equity requires today's ratepayers to meet the costs of utilising the Council's assets but does not expect them to meet the full cost of long term assets that will benefit ratepayers in future generations****...*

Applying these intergenerational principles, I concur with the Accounting Policy, for example, for '*Depreciation*' (Note 8, p.30).

That is, whilst an asset is incomplete and unable to contribute resources or save expanses there is no depreciation charge in a current year nor until such time as it is ready-for-use.

The corollary to this is that whilst an asset is under construction *etc.* and is financed by and/or is incurring borrowing costs (as is the case currently for most if not all WCC capital expenditures) then those **interest costs on work-in-progress** should be capitalised to the asset concerned. [NB. I am unable to determine in the Draft Financials the extent of Work-in-Progress].

In Note 6 '*Finance Expense*' (p.26) and in the '*Property, Plant & Equipment*' Note 18 (p.27) the current Policy is

> "*All Borrowing Costs are expensed in the period in which they are incurred*"

Given this; the accounting treatment currently adopted by the WCC is at odds with the over-riding principle of intergenerational equity.

The consequence is that in setting Rates, current Ratepayers are (by policy definition) being charged in the budgeted rate-calculations for non-capitalised borrowing costs on work-in-progress capital expenditures benefitting future ratepayers - so are therefore being over-charged in their rates. The result is the underlying Surplus on Operations is under-stated for a current year and the Rates calculation over-stated.

How has this Policy arisen?

It is possibly a simplified reading of the latest formal Public Benefit Entity IPSAS 5 '*Borrowing Costs*' Accounting Standard applicable to the WCC – which states (IPSAS 5.14) as a '**Benchmark Treatment**'

> *All Borrowing Costs are expensed in the period in which they are incurred*".

However, equally valid and more applicable to the WCC's operations (in scale, type of assets and significance) is IPSAS 5.17 "**The Allowed Alternative Treatment**":

Borrowing Costs ***shall*** *be recognised as an expense in the period they are incurred,* ***except to the extent they are capitalised and in accordance with IPSAS 5:18*** (which states) ***Borrowing Costs that are directly attributable to the requisitioning, construction, or production of Qualifying Assets shall be capitalised to the cost of that asset.***

A Qualifying Asset is defined as "*an asset that necessarily takes a substantial period of time to get ready for its intended use or sale*".

Thus, I believe

- the current *Financing Expense* Policy is insufficient against the inter-generational objective, emphasised by information from Agenda Item 2.4, so
- the FARMS should re-consider forthwith the applicability of the present Note 6 '*Finance Expense*' Accounting Policy to the more appropriate permitted IPSAS 5 ***Allowed Alternative Treatment*** and adjust the Financial Statements accordingly to give credence to the stated objective for intergenerational Equity (which is allegedly currently the case!).

As further commentary in support of this Issue, and proposal, I would note:

- the WCC has some big-ticket capital expenditures under consideration which inevitably will be phased over more than a current accounting period (*e.g.* cycle ways, social housing, new Convention Centre, replacement to the CAB, etc., etc.) necessitating capitalised borrowing costs since rateable income is less than budgeted operational expenditures. The sooner interest capitalisation is implemented for rate determination purposes the better; and
- the WCC appoints two directors to the Wellington International Airport Board (representing the WCC's 34% interest). The WIA '*Borrowing Costs*' Accounting Policy requires interest capitalisation as described above.
  This in turn creates an anomaly given that the WCC consolidates a different interest charging regime (*i.e.* **after** interest capitalisation) in its Equity Associated Earnings of an Associate (refer Note 20, p.58);
- the concurrent Agenda Item 2.4 on the Long Term Plan states (p.168):
  '***With significant capital investments throughout the LTP, debt is forecasted to go up****... the Liability Management Policy is introducing a move towards a "corridor" approach when managing [this interest rate] risk. The corridor approach considers debt forecast figures* ***for every year*** *of the Long-Term Plan, rather than the existing approach that is* ***only forward looking by 12 months****.*
  The following considerations have been taken into account when looking into this change to policy: - ***Increasing debt levels over the 2018/28 Long-Term Plan period*** *- An ability to prudently manage future debt levels over a prolonged period with far greater flexibility than a rolling 12 month forecast period'.*

Accordingly, the current Note 6 Accounting policy is a significant issue being inappropriate for all the reasons given – and an interest capitalisation policy should be implemented for the 2018 Financial year as permitted and contained in IPSAS 5.18.

Mobile: 0274-395-135
Email: jhg.milne@xtra.co.nz

9 Upland Road,
Kelburn,
Wellington, 6012.
24th January 2019.

IPSAS 5 'BORROWING COSTS' and INTER-GENERATIONAL EQUITY

Mr John Ryan,
Controller and Auditor General,
P.O. Box 3928,
Wellington, 6140

By E-mail to:
john.ryan@oag.govt.nz>

Dear Mr Ryan,

I am attaching a letter sent concurrently to Mr Warren Allen, CEO of the External Reporting Board (XRB). That letter is co-signed by Mr Jordan Williams, Executive Director, The New Zealand Taxpayers' Union. A hard copy follows.

The Issue relates to the role of the Auditor-General (along with the XRB Standard Setters) on audits of Long Term Plans (LTP) and Financial Statements of Local Authorities, as mandated by the Local Government Act, 2002 concerning IPSAS 5.

Contrary to what might be expected by your predecessor/s, there's far from uniform methodology and consistency on the treatment of 'Borrowing Costs' across New Zealand's Local Authorities including the statutory requirement for Inter-Generational Equity which many Local Authorities claim to adopt - but most in fact do not.

The attached letter and report highlight part of the issue relates to ambiguity in the Standard itself; but part also relates to the audit responsibility of Auditors appointed by yourself; namely Audit New Zealand and the other Private Sector Auditors, Deloittes and EY. The Recommendations contained in Item 7 on p.16 affect the XRB and, with respect, I believe also yourself and/or the Office of the Auditor-General, with suggested remediation as early as your next 'Audit Instruction Letter' for the formalities required for the 2018/19 LTPs and Financial Reporting Statements.

To provide some context, I estimate, on indicative assumptions, current ratepayers in New Zealand's Cities could be paying of the order of an annual $25-30 mn. more in rates than they should because of this matter. The attached Report explains why.-

If you have any query or require further elaboration, please advise; otherwise I would appreciate your confirmation of receipt of this letter. Thank you,
Yours sincerely;



Dr John Milne
Cc Mr Jordan Williams; jordan@taxpayers.org.nz

OFFICE OF THE AUDITOR-GENERAL
Te Mana Arotake

Level 2, 100 Molesworth Street, Thorndon 6011
PO Box 3928, Wellington 6140, New Zealand

Telephone: +64 4 917 1500
Facsimile: +64 4 917 1549

Email: info@oag.govt.nz
Website: www.oag.govt.nz

5 April 2019

Dr Milne
PO Box 28-045
Kelburn
Wellington 6150

Dear Dr Milne

IPSAS 5 'BORROWING COSTS' AND INTERGENERATIONAL EQUITY

The Auditor-General, John Ryan, asked me to respond to your letter of 24 January 2019 about *IPSAS 5 'Borrowing Costs' & Inter-Generational Equity.* That letter was accompanied by a letter you sent to Warren Allen, the Chief Executive of the External Reporting Board (XRB), about the same matter. I also note that you emailed John Ryan on 20 February 2019.

Please note that I was appointed as a member of the International Public Sector Accounting Standards Board (IPSASB) during 2018. This response to your letter is made on behalf of the Office of the Auditor-General, not in my capacity as a member of the IPSASB.

In your cover letter to John Ryan, you estimate that ratepayers in New Zealand could be paying up to $30 million more in rates than they should because borrowing costs are not being capitalised to qualifying assets. We think this conflates an accounting issue with a funding issue.

Regardless of how borrowing costs are accounted for, councils need to be able to fund all of their expenditure (both operating and capital expenditure). The options available to councils are broadly rates revenue, user charges and debt. If funding from rates revenue is reduced, funding from one of the other sources will need to increase. This is likely to be an increase in debt, which may not be financially prudent.

Councils need to carefully balance the way in which expenditure is funded, and the accounting for borrowing costs is unlikely to be a significant driver of the funding decisions.

We note that on page 19 of your letter to Warren Allen, you made a series of recommendations for the XRB, IPSASB and the Auditor-General. Essentially those recommendations were to:

- align PBE IPSAS 5 with NZ IAS 23 *Borrowing Costs*, such that borrowing costs are required to be capitalised for qualifying assets;
- update the Audit New Zealand model financial statements for local authorities to align with capitalisation of borrowing costs to qualifying assets; and
- instruct local authorities to include information in their long term plans and financial statements about the borrowing costs for qualifying assets to show that they are not all being funded by the current year's rates revenue, and inform auditors about this.

We comment on each of those below.

Align PBE IPSAS 5 with NZ IAS 23

Whether or not PBE IPSAS 5 should be changed to align it with NZ IAS 23 is a matter for the New Zealand Accounting Standards Board (NZASB) of the XRB to consider.

I am aware that the IPSASB expects to issue a consultation paper soon about measurement. One of the matters included in the paper that the IPSASB will consult on, is the accounting for borrowing costs in the public sector. Once the consultation paper is issued by the IPSASB, I expect that the NZASB will seek comments on the paper from New Zealand constituents.

It is interesting that the consultation paper approved for issue by the IPSASB at its March 2019 meeting, has a preliminary view that all borrowing costs should be expensed. That preliminary view has been reached in the context of the IPSASB's conceptual framework, which acknowledges current and future generations of taxpayers (akin to the principle of intergenerational equity), as a distinguishing feature of the public sector.

We are aware that there is not a straightforward answer to the question of whether borrowing costs should be capitalised for qualifying assets in the New Zealand public sector. Part 5 of your letter to Warren Allen points out some justifications for not capitalising borrowing costs. We think there are valid points for not capitalising borrowing costs, as referred to in that part.

We don't think the compliance costs of capitalising borrowing costs for qualifying assets should be underestimated, and it would be helpful to better understand the cost/benefit equation. It can be complex apportioning borrowing costs, and somewhat arbitrary capitalising them to qualifying assets. Also, the nature of many public sector assets, i.e. infrastructure, can add a layer of complexity, because of the componentisation of infrastructure.

Most public sector assets in New Zealand are revalued. However, there is no clarity over whether and, if so, how borrowing costs should be incorporated when revaluing those assets.

In the private sector, revaluations of assets seek to establish an exit price in an orderly market. In the public sector most assets are never sold. Therefore, it does not make sense that the aim of a revaluation for such assets would be to establish an exit price.

When revaluing a public sector asset, depreciated replacement cost tends to be the default method used to establish the value. With no market for the purchase and sale of the assets, it is unclear what to do about borrowing costs as there is no implicit borrowing that can be incorporated into a depreciated replacement cost valuation.

Without clarity over whether or how to incorporate borrowing costs in a depreciated replacement cost valuation, it is questionable whether the cost should be capitalised initially. All things being equal, if borrowing costs were capitalised initially and the asset revalued on completion without incorporating borrowing costs, there would be a difference between the cost and the valuation, with the cost being higher than the valuation by the amount of the capitalised borrowing costs. That amount would be written off to the revaluation reserve, if there is one, or to expenses.

Where a council has an accounting policy to capitalise borrowing costs to qualifying assets, we currently take a pragmatic approach to the revaluation of infrastructure assets. Those councils don't incorporate a borrowing cost component into their valuations of core infrastructure assets, and we accept that position based on the lack of clarity over how it would be done.

Update the Audit New Zealand model financial statements

Audit New Zealand's model financial statements: Te Motu District Council 2016/17 are designed to show financial statements that comply with generally accepted accounting practice. The model financial statements set out the "benchmark treatment" for borrowing costs as set out in *PBE IPSAS 5*. Although local authorities have the option of using the "allowed alternative treatment", we think it is reasonable for the

model to set out the benchmark treatment, particularly given some of the issues with capitalising borrowing costs. We note that on page 7 of the model users are told:

"The model does not address all the possible recognition, measurement, presentation, and disclosure requirements of the PBE accounting standards. Local authorities should not use the model as a substitute for referring to individual accounting standards applicable to their specific circumstances."

Instruct local authorities and inform appointed auditors about borrowing costs

We are comfortable that local authorities have accounting policies which are in line with *PBE IPSAS 5*. *PBE IPSAS 5* allows for the benchmark treatment and the alternative treatment, and local authorities make individual choices between those options based on their circumstances.

We understand your concern about the principle of intergenerational equity, and whether both of the options for accounting for borrowing costs in PBE IPSAS 5 can align with the principle. Application of the intergenerational equity principle is a matter of judgement. The issues with capitalising borrowing costs as set out in your letter to Warren Allen, some of which I've also commented on, show that it is not straightforward to determine whether such costs should be capitalised to qualifying assets. Your view on this matter is one of a range of views, and we encourage you to express those views to the IPSASB for their consideration.

Given that the IPSASB will be consulting soon on the accounting for borrowing costs in the public sector, as part of its consultation paper on measurement, and it is unclear whether expensing or capitalising of borrowing costs will be required in future, we don't think it makes sense for local authorities or appointed auditors to change current practice right now.

Yours faithfully



Todd Beardsworth
Assistant Auditor-General
Accounting and Auditing Policy

cc Warren Allen
Chief Executive
External Reporting Board



40 Arden Close
Bradley Stoke
BRISTOL
BS32 8AX
United Kingdom

International Public Sector Accounting Standards Board

By email

26 September 2019

Dear Sirs

Consultation Paper – Measurement

We have pleasure in attaching our comments on the above Consultation Paper.

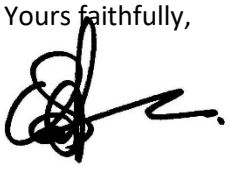
By way of background, Valuology is a business formed by Marianne Tissier and Chris Thorne, two former directors of the International Valuation Standards Council. It provides support and advice to valuation firms, government agencies and professional organisations on valuation standards, compliance with best practice and risk management.

We have a particular interest in the work of the IPSASB on this subject given our experience of trying to develop an international consensus on best practice guidance for public sector valuations while at the IVSC. We discovered then that there was insufficient commonality between different countries on what public assets could or should be measured at all, let alone valued, for there to be any useful guidance that would be applicable internationally. Hopefully the Conceptual Framework and the proposed measurement standard will assist in harmonisation.

Chris Thorne also had considerable dialogue with both the FASB and IASB during the development of their respective Fair Value standards, including being a member of the FASB's Valuation Resource Group and providing "Education Sessions" to the IASB on valuation issues.

The attached response is in two parts. Part 1 provides our response to the specific questions asked in the Consultation Paper. Part 2 provides detail to support some of the responses in Part 1 and our comments on other matters. Please do not hesitate to contact us if you would like to discuss any aspect of our response.

Yours faithfully,



Chris Thorne
Director
Valuology Ltd
cthorne@valuology.org
+44 (0)7718807326

Valuology Ltd is a company registered in England and Wales, Company Number 09679903. Registered Office, Woodlands Grange, Woodlands Lane, Bradley Stoke, Bristol, BS32 4JY.



Valuology

Responses to IPSASB Measurement Consultation Paper

Part 1: Responses to Questions in Consultation Paper

1 The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Response:

We agree with the Board's Preliminary View. Measurement bases and the concepts upon which they are based need to be clearly explained if consistent application is to be achieved. This is especially the case with public sector assets where the economic concepts underpinning many measurement concepts used in the private sector cannot be readily applied.

2 The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

Response:

We agree with the Board's Preliminary View. The proposed standard should set the required principles at a sufficiently high level to ensure they can be applied across the widest range of public assets and liabilities.

3 The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost– Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response

We have no comment on the historic cost bases of measurement.



4 The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:

We agree that the Fair Value guidance in the proposed standard should be aligned as far as possible with that in IFRS 13. We do, however, have some detailed observations on the supposed differences between Fair Value and Market Value in 2.19 – 2.24, which we address in Part 2 of this response.

5 The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:

We agree with the Board's Preliminary View.

6 The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:

We agree that the guidance on replacement cost should be based on concepts in the Conceptual Framework but have some detailed comments on the detail of Appendix D which we address in Part 2 of this response.

7 The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

Response:

We have no comment on the Board's Preliminary View.



8 The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

> Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Response:

We agree with the Board's Preliminary View.

9 The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS Measurement Standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Response:

We agree with the Board's Preliminary View.

10 The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- Excluded in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response:

We disagree with the Board's Preliminary View. The main reason we disagree is that there is apparent confusion between the question of the extent to which a market participant would reflect transaction costs in calculating the price they would be prepared to pay or accept and the question as to whether transaction costs should be reflected in the measurement for financial reporting purposes. The Preliminary View also incorrectly identifies historical cost as a type of valuation, rather than as a type of measurement. We expand on our concerns in Part 2 of this response.

11 The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- Included in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response:

We disagree with the Board's Preliminary view for the same reasons as stated for 10 above.

Specific Matter for Comment 1 - Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Response:

We agree that the list of definitions is exhaustive. We do not agree with all definitions and highlight those which we feel need reconsideration in Part 2 of this response.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

Response:

We agree it is important that the Board aims to maximise consistency between relevant concepts in other standards and the IPSAS in order to ensure the widest comprehension of those concepts among preparers, advisors and users of public sector financial statements.

We do not consider that the concepts of Equitable Value and Synergistic Value as defined by the IVSC have any relevance or application to financial reporting whether in the public or private sector. We explain these concepts and explain why we do not believe they are applicable to the measurement objective in the Conceptual Framework in Part 2 of this response.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:
- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

Response:

We agree that some may find them helpful as starting points although they need supporting with some detailed explanations of the decision criteria for each stage.



Part 2: Detailed Comments

Fair Value and Market Value 7
Equitable Value and Synergistic Value 8
Transaction Costs 9
Illustrative ED - Definitions 10
Illustrative ED - Appendix D: Replacement Cost – Application Guidance 11
Overall Comment on Appendix D 11

Fair Value and Market Value

Consultation Paper 2.19 – 2.24

We encourage the Board not to present the difference between market value and fair value as being simply that Market Value can be both an "entry value" and an "exit value" whereas Fair Value can only be an "exit value".

This is a matter that was the subject of considerable debate to which the writer was party between the IASB and IVSC during the development of IFRS 13. We understand that the reason IASB specifically identified Fair Value as being an exit value is to emphasise that the reporting entity is deemed to be willing to dispose of the asset (or settle the liability) in question on the reporting date regardless of their actual intention. At conferences with preparers in the period between 2006 and 2012 when first the FASB and then the IASB were developing their Fair Value standards, a surprising number were asserting that Fair Value was not a valid measure if they had no intention of selling. The "exit value" provision was felt necessary to make the point that the measure required the assumption of a sale even if the entity intended to hold the asset for the foreseeable future. Rather than describe the type of value required it is being used as shorthand for "you are assumed to be selling even if you are not".

From a valuation perspective the exit v entry debate has always caused confusion when discussing any basis of value that involves a transaction. If the basis requires the assumption of a transaction, there must be two parties to that transaction, and they strike a price at which one is exiting and one is entering. The price under such an assumption is therefore simultaneously an entry and an exit price. Assertions that a transaction price will differ depending on which side of the transaction it is viewed from contradicts most of the other assumptions required to estimate that price.

Because financial reporting standards are written from the perspective of the reporting entity, we accept the term "exit price" makes sense in explaining the required approach to an existing owner of an asset or liability. However, valuation bases in valuation standards are written from a neutral perspective and in this context the expressions entry and exit are unhelpful. The assumed motivation of both the seller and buyer is dealt with in the IVSC definition of Market Value by describing both as being "willing", with supporting detail in the Conceptual Framework in IVS 105.

Before IFRS 13 was finalised there was considerable discussion between IASB staff and the IVSC as to the similarities and any differences between Fair Value and Market Value, which resulted in the statement in IVS 2013[1] that for most practical purposes Market Value under IVS would meet the Fair Value measurement requirement under IFRS 13. The only significant difference identified was the requirement in IFRS 13 to ignore "blockage factors".[2]

The Board states in 3.5 that *"it is important that the preparers of financial statements and the valuators (sic) have a clear understanding of each other's requirements and for the preparers of financial statements to have a basic understanding of the approach the relevant expert might adopt in providing a valuation."* Distinguishing between definitions or bases of value by referring to them as exit or entry values does not help achieve this objective.

Equitable Value and Synergistic Value

Specific Matter 2 - Para 3.5 of Consultation Paper and Comparison Table at Addendum B

Equitable Value is used to describe a price that would be agreed between two specific entities having regard to their specific interests. Examples of where Equitable Value will be an appropriate measure of value include:

- A minority shareholder selling its holding to another minority shareholder which would give the buyer a controlling majority interest.
- A lessor acquiring the interest of a lessee.
- An owner of a strip of land required for access selling to the owner of the land to which it provides access.

In each example the price in the transaction will differ from that which the seller could command in the open market because of the relationship between the parties or between the assets. Equitable Value is a price that a) assumes the parties are willing or obliged to transact and, b) is equitable having regard to the parties' respective interests.

Synergistic Value is the amount of additional value that arises when two interests are combined. It differs from Equitable Value as it represents the whole of increase in value arising from the combination of two interests, not the price that would be paid between two specific parties to achieve that increase in value. Often the Equitable Value is one that apportions Synergistic Value between the specified parties. Synergistic Value also differs from Equitable Value in that it is not confined to a transaction between two specific parties. It can also arise from the combination of the subject interest with more than one other complementary interest, for example where there would be more than one prospective buyer for a business, each of whom could create Synergistic Value from efficiencies achieved from combining the subject business with their own.

The concepts of Equitable Value and Synergistic Value may be useful to an entity contemplating an actual transaction but have very little relevance where there is no intention or obligation to enter into a transaction with a specific party. Value measurements in financial reporting are based on what the reporting entity would either receive or pay in a hypothetical transaction in the market.

[1] IVS 2013 IVS Valuations for Financial Reporting 300 G2
[2] IFRS 13 Fair Value Measurements para 69

Even if the reporting entity was under a contractual obligation to sell an asset to a specific party on the reporting date the appropriate measurement is not what it would receive under that contract but the current benefit of that contract. For example, an entity with a holding of land may have granted an option for another party to buy that land at a future date. The price at which that option can be exercised may represent Equitable Value. Exercise of the option may also create Synergistic Value. However, the current benefit to the reporting entity is not the sum it would expect to receive if the option were exercised but the value it could obtain from transferring its interest now subject to the option, which would take into account the risk and uncertainties of if and when the option would be exercised. It would therefore be the Fair Value of that option.

Transaction Costs

Paras 3.29-3.54 and Illustrative ED 24-28

We have no view on the question as to whether transaction costs should be capitalised or not. However, from a valuation perspective it is important that they are clearly distinguished from the estimated price that would be paid in a transaction. They are not a characteristic of the asset or liability. This is the reason for the statement in IVS 104 210.1[3] quoted in para 3.47 of the Consultation. A similar position is taken in IFRS 13 25:

> *The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other IFRSs. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.*

The discussion and the Preliminary Views expressed in the Consultation Paper fail to recognise that regardless of whether the reporting entity has historically acquired an asset or whether it is deemed to either be acquiring or disposing of an asset on the reporting date, the costs involved in those transactions are not an intrinsic characteristic of those assets. The suggestion that this could change depending on whether the entity is "exiting" or "entering" is, therefore, flawed.

That virtually all transactions will incur costs for either or both parties is not a point of contention. However, the treatment of those costs in financial statements will depend on the accounting objective. For example, if the accounting objective is to measure the "net selling price" then the estimated proceeds of a sale will involve deducting the estimated transaction costs from the estimated selling price. To allow for such adjustments, transaction costs should be clearly stated as separate items from the measurement of the asset itself.

There is also danger of confusing the treatment of transaction costs that would be incurred in a hypothetical disposal or acquisition by the reporting entity with how such costs are treated in different valuation techniques. This is evident in the two extracts from the IVS in para 3.47. The first extract from IVS 105 210.1 concerns the reported value, emphasising that this is the price that is agreed between the hypothetical parties without adjustment for the costs or taxes that either may occur. The second extract, from IVS 105 70.10, is a reference to inputs required when using the cost approach, when the any costs that would be incurred by a market participant in creating an equivalent asset are reflected, which includes transaction costs. These extracts are not advocating

[3] Incomplete reference in Consultation Paper



Valuology

alternative approaches depending on whether a particular entity is entering or exiting, but describing very different things, one the reported value and the other one of the techniques that can be used to estimate that value.

All recognised valuation techniques either explicitly or implicitly reflect transaction costs because these costs influence the price that market participants are prepared to agree. However, the reported figure is that price. Confusion between the technique and the result is not uncommon. We are aware of misstated values for investment property by entities purporting to use the Fair Value model under IAS 40 who mistakenly believe that the requirement in IFRS 13 not to adjust the price for transaction costs means that they must strip out all such adjustments from the technique used to estimate Fair Value, normally a form of discounted cash flow. In countries where there are high taxes on property transfers this makes a significant difference. This is, of course, not reflecting how market participants would calculate the price they would be prepared to pay in an actual transaction and, therefore, is contrary to the definition of Fair Value and specifically to IFRS 13 22:

> *An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest*

For similar reasons to those given in our earlier comments on the problems caused by categorizing bases of value as either "entry "or "exit" values, we believe the proposal that differentiates the treatment of transaction costs depending on the chosen measurement method is unhelpful. Instead we recommend that the proposed Exposure Draft should focus on the need to:

a) Distinguish the measurement of the asset or liability (whether that be historic cost or one of the permitted valuation bases) from any transaction costs incurred in a past transaction or that would be incurred in a hypothetical transaction on the reporting date. This provides transparency to users of the financial statements and allows for different treatment of the items under other IPSASs.

b) Avoid causing confusion between the exclusion of transaction costs from the reported value of an asset or liability and the proper reflection of such costs in any valuation technique used to estimate that reported value.

Illustrative ED - Definitions

Cost Approach: While this definition is the same as in IFRS 13 we believe that words in parentheses at the end are unnecessary and unhelpful. The cost approach is a valuation technique. "Current replacement cost" is an input into the Cost Approach rather than the result of using that approach. An additional risk that does not arise in IFRS is of confusion with "Replacement Cost" as an alternative measurement option under the Board's proposals. The Cost Approach can be used as a valuation technique to estimate both Fair Value and Replacement Cost. The words add nothing but potential for confusion and could usefully be removed.

Entry Price / Exit Price: If these definitions are considered essential, for the reasons explained above we recommend that they are amended so it is clear that these terms are explaining the assumed transaction from the perspective of the reporting entity, e.g. "… is the price paid by the entity to acquire…." and "… the price received by the entity to sell…"

Market value for assets / Market value for liabilities: We do not agree that it helps to bifurcate this definition. Further, it is unclear why Market Value needs defining at all as it is not listed in the Illustrative ED as a measurement option. We understand from 2.20 that a combination of these definitions is currently used in IPSAS 29, but the Basis for Conclusions indicates that the Board intends that IFRS Fair Value be used as the measurement basis for financial instruments. If, for any reason, it is decided that a Market Value definition is necessary, then we encourage to use the IVSC Definition which is widely understood and applied and which has a Conceptual Framework for its application developed over the past 25 years.

Illustrative ED - Appendix D: Replacement Cost – Application Guidance

D5 Location Factors: We believe that this does not adequately explain the approach to be adopted where public services need to be situated in expensive city centre locations and where the value of land, at least superficially, for alternative uses is much higher. When it is stated that the replacement cost of the land is based on the *current value* of the existing site, does this mean its value for the current use or the current value for an alternative use that would be permitted if the hospital, school etc was not required in this location?

Other factors that need exploration in application guidance is the role of any legislation controlling land use, which may have designated city centre land specially for public service uses. This would mean that the highest and best use would be for the designated public service use, not for any alternative higher value uses that may surround it. In other cases, a public service use may not be on a site which has specific legal limitation to that use, perhaps because the use is historic. What assumptions should be made about the cost of acquiring a site for the public service use in that locality under these circumstances?

We would submit that, while information about the potential for higher value uses may be material to a public entity for planning and efficient location of future projects, for measuring the value of an existing asset for financial reporting it has little relevance, especially if it means that the value of the land is incompatible with the continuing provision of the public service. An entity needing to replace the remaining service potential would not rationally buy land that had a value for an alternative use in excess of that that could be supported for the existing use.

Overall Comment on Appendix D

We understand and support the use of the concept of “Replacement Cost” where Fair Value or Historic Cost do not best meet the measurement objective. However, the term “Replacement Cost” fails to convey that this is a current value measure and is too easily confused with an actual cost or the cost of replacing or reinstating if the asset were lost by fire or another hazard.

In the UK, the government and other public sector bodies have adopted accounting principles largely based on IFRS but for property owned and occupied for service delivery do not use IFRS Fair Value but an alternative, “Existing Use Value”. This was originally developed in the 1990s by the RICS working in conjunction with the former UK Accounting Standards Board for application to owner occupied property in the private sector, although this did not survive the requirement for all listed private entities to adopt IFRS in 2005. However, the public sector clearly considered it was a useful alternative taking into account the problems of applying Fair Value to many types of land and buildings held to deliver a service.

Existing Use Value (EUV) meets the broad criteria of Replacement Cost as defined in the Illustrative ED but is more precisely defined as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, *assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost."*
© RICS

It will be noted that the first half of this EUV definition is the same as the IVSC definition of market value, but there are four additional conditions in the italicised section. Examination of these help to understand how EUV differs from Market Value:

" … *assuming that the buyer is granted vacant possession* …". This means that in the hypothetical exchange physical and legal possession passes to the buyer of all parts of the property required to provide the service. In the case of property this does not mean that any building is assumed to be disused or empty with all that could imply in terms of additional costs for either party. If any part of a property is occupied by a third party, the valuation will reflect the benefit or encumbrance of those occupations.

"...*of all parts of the property required by the business*…". This reinforces the objective for the value to reflect the potential for the asset to provide the service required of it by the reporting entity. The reference to "the business" reflects the definition's origins but has been accepted by the UK Government and public sector as also meaning *"… of all parts of the property required for delivery of the service.."*. If parts of a property are surplus to the operational requirements and if they are capable of separate occupation then they should be categorised as surplus, and separately valued. Any surplus parts incapable of separate occupation would be expected to have no more than a nominal EUV, as they would contribute nothing to the service potential of the property and would not feature in a replacement at least cost.

"…*disregarding potential alternative uses…*". Unlike market value, which is unconcerned with the needs of a specific entity, EUV requires the valuer to disregard uses that would drive the value above that needed to replace the service potential of the property to the reporting entity. A public sector entity will often have a statutory duty to provide a service in a particular locality and, therefore, potentially higher value uses are of no relevance unless and until the property becomes surplus. Notwithstanding, it would be appropriate to take into account the potential for additional development of a property providing this was for the existing use, would be required by the entity and that such construction could be undertaken without major interruption to the current operation.

"…*disregarding any other characteristics of the property that would cause the market value to differ from that needed to replace the remaining service potential at least cost."*. This is a "catch all" instruction to ignore any factor that would be reflected in the market value but that is irrelevant to the continued provision of the service. Examples include restrictive user covenants, planning conditions or remedial costs that would be incurred if the existing use ceased. Another would be where a property is in an unusual location or is oversized for its location which would restrict its market value below the cost of replacing the service potential.



Like other bases of value, EUV can be estimated using any of the main valuation techniques, i.e. the market approach, the cost approach and the income approach.

We are also aware that EUV is being considered as a suitable alternative to Fair Value in other jurisdictions where an objective measure of the cost of replacing the service potential is considered more relevant and capable of estimation than the amount that could be obtained on disposal. Given that EUV has had the benefit of some twenty five years' use, over which time it has been refined and a body of guidance developed around it, we believe that it is worth the Board considering this as an alternative to "Replacement Cost".

This would also have the advantage of avoiding confusion with historic cost which is available as a measurement option but for which the techniques used for any of the three valuation options have no relevance.

Valuology: September 2019

P O Box 7001
Halfway House
Midrand
1685
Tel. 011 697 0660
Fax. 011 697 0666
www.asb.co.za

Technical Director

277 Wellington St. West
Toronto, ON
M5V 3H2

26 September 2019

Electronic submission: ipsasb.org

Dear John

COMMENTS ON THE CONSULTATION PAPER ON *MEASUREMENT*

We are pleased to provide comments on the Consultation Paper on *Measurement*. Our comments have been formulated after consultation with stakeholders and have been reviewed by the Board.

Our responses to you are outlined in two parts:

- Part A – Responses to preliminary views and specific matters for comment.
- Part B – Other comments.

Initial reactions

We support the IPSASB's project on measurement as the lack of clear, consistent guidance on measurement is often raised by our stakeholders as an issue in applying accrual based-Standards. Apart from our detailed comments in Parts A and B, we would have outlined strategic issues in the paragraphs that follow.

Approach to Consultation Paper

Given that the approach used in this project is new, we asked stakeholders for their views about the proposed approach.

There were mixed reactions to the approach. Some stakeholders supported the publication of both a Consultation Paper and an "illustrative" Exposure Draft as this helped to visualise at least one part of the project output. These stakeholders however indicated that they did not focus on reviewing the technical content of the illustrative Exposure Draft because it was marked as "illustrative". Other stakeholders indicated that they found it difficult to engage with the issues because the ideas were not well enough developed and were too conceptual.

Board Members: Mr V Ngobese (chair), Ms F Abba, Ms L Bodewig, Mr C Braxton, Mr K Hoosain,
Ms S Kubheka, Ms I Lubbe, Mr K Makwetu, Ms P Moalusi, Ms N Themba
Alternate: Ms M Sedikela
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

Illustrative Exposure Draft

Based on the observations from stakeholders on the approach and other feedback received, we suggest that a detailed technical review be undertaken of the illustrative Exposure Draft to refine the concepts and to ensure there are no inconsistencies between the Appendices.

It was also observed that the styles of writing vary from Appendix to Appendix, which may be a consequence of using different sources of information to develop the illustrative Exposure Draft. Stakeholders noted that the structure and style of writing, language etc. should be consistent with the existing suite of IPSAS.

Use of material from the Conceptual Framework

Material has been included from the Conceptual Frameworks of either the IPSASB or the IASB in the illustrative Exposure Draft. This material is often too "conceptual" to be of value in a potential IPSAS intended to explain the application of specific measurement bases. Specific examples are provided in Parts A and B of our comments.

Link with infrastructure assets and heritage

The IPSASB has two key projects on its work plan where issues are likely to arise related to the measurement of assets and liabilities, i.e. heritage and infrastructure assets. Most of the accounting issues that arise in these topics relate to measurement and it is therefore critical that guidance is provided. The IPSASB should consider how it provides guidance on these areas based on some of the preliminary views expressed in this Consultation Paper, i.e. that the IPSAS on *Measurement* will only provide generic guidance and transaction specific guidance is located elsewhere.

Fair value, market value and replacement cost

We are concerned about how fair value, market value and replacement cost are going to be used to measure assets and liabilities.

<u>Use of fair value</u>

- At present, the IPSASB's *Conceptual Framework for General Purpose Financial Reports in the Public Sector* does not include 'fair value' as defined in IFRS 13 on *Fair Value Measurement* as a measurement basis.
- We agree that, in order to maintain alignment with International Financial Reporting Standards, the IPSASB needs to include 'fair value' in its literature. However, we question how it will be used and its interaction with other measurement bases such as 'market value' and 'replacement cost'.
- Fair value, as defined in IFRS 13 is an exit-based measure of assets and liabilities. It is therefore only likely to be relevant when measuring the financial capacity of assets.
- Given our limited support for the use of fair value in IPSAS, this would impact on the modification of IFRS Standards when they are developed as an IPSAS. This would particularly be the case where an IFRS Standard proposes using fair value to measure the 'operational capacity' of an asset. As a result, there may be some need for divergence from IFRS regarding the use of fair value.

<u>Fair value and market value</u>

- At present, the suite of IPSAS recognises assets acquired in non-exchange transactions at 'fair value'. The current definition of 'fair value' in IPSAS could be either an entry or an exit value, which makes it relevant to measuring assets (and liabilities) that are being acquired or sold.
- The current definition of 'fair value' in the suite of IPSAS is consistent with the definition of 'market value' in the IPSASB's Conceptual Framework. In deciding whether to retain 'market value' or replace it with 'fair value', the IPSASB would need to establish (a) whether or when entry values are required, and (b) whether market value or an alternative measurement basis should be used.

- We believe there is a need to use entry values for the initial recognition of assets received, or liabilities assumed, in non-exchange transactions. Other situations may also exist and the IPSASB should fully analyse when other situations may require the use of entry values. While using market value for the initial recognition of non-exchange transactions may be appropriate, we believe having both 'fair value' (as defined in IFRS 13) and 'market value' in the Conceptual Framework/suite of IPSASs is likely to be highly confusing for preparers and users. We would therefore support deleting 'market value'. As an alternative measurement basis where entry values are needed, it may be appropriate to use 'replacement cost' rather than 'fair value', particularly as the initial measurement for non-exchange transactions.

Replacement cost as a measurement basis and an approach to determine fair value

- At present, 'replacement cost' is identified as a measurement basis in the Conceptual Framework and the illustrative Exposure Draft. 'Replacement cost' is also the basis used when applying the 'cost approach' in determining fair value in IFRS 13.
- We do not believe that replacement cost can be used as a measurement basis and as a measurement approach means of calculating fair value.
- The 'cost approach' in IFRS 13 (which is measured using replacement cost) is most commonly used in measuring non-monetary assets such as infrastructure. These assets are likely to be held for their operational capacity rather than their financial capacity. In line with our proposal above, we are of the view that fair value should only be used to measure financial capacity. As a result, it may not be necessary to include the 'cost approach' in the fair value guidance. We suggest removing the 'cost approach' from fair value.

Change management and education

The potential change to having one IPSAS outlining measurement principles for a number of bases and the individual IPSAS outlining transaction specific Application Guidance represents a significant shift both in how preparers will use/interact with the IPSAS as well as apply the principles. The IPSASB should consider specific change management and education initiatives for the users of its Standards once the process has been completed.

Scope of project

We note that the proposal is to exclude any specific disclosures from the IPSAS on *Measurement*. As there are transversal disclosures that will be necessary irrespective of the measurement basis applied, we believe that there may be merit in including these disclosures in the IPSAS on *Measurement*. The disclosures in IFRS 13 on *Fair Value Measurement* could be used as a basis.

General

We continue to support the IPSASB's work in this area as providing clear guidance on the measurement of assets and liabilities will improve the quality of information available to users.

Should you have any queries regarding the comments outlined in our letter, please feel free to contact me.

Your sincerely



Jeanine Poggiolini, Technical Director

PART A – RESPONSES TO PRELIMINARY VIEWS AND SPECIFIC MATTERS FOR COMMENT

CHAPTER 2 – HOW HAS THE ILLUSTRATIVE ED BEEN DEVELOPED?

Preliminary View 1 - Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

PV1.1 We support the inclusion of fulfilment value, historical cost and replacement cost.

- For historical cost, the inclusion of the guidance in an IPSAS on *Measurement* is an opportunity to align the principles across the IPSAS and to reduce repeating concepts in different Standards when they are the same.
- For replacement cost, there has been a lack of comprehensive guidance in IPSAS which has led to diversity in practice and significant disagreements between accountants, engineers, valuers and auditors. The guidance would address the diversity in practice.

PV1.2 Our concerns on the use of fair value are discussed in our response to Preliminary View 4.

PV1.3 It would be useful for the IPSASB to communicate how or if the other measurement bases will be considered.

Preliminary View 2 - Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

PV2.1 We support the view that generic guidance should be included in the IPSAS on *Measurement* and transaction specific guidance should be provided in the IPSAS dealing with a particular topic. We have specific comments on Appendix C and Appendix D on the distinction between generic and specific guidance.

PV2.2 When reviewing the illustrative Exposure Draft, the Board should ensure that consistent terminology is used in the IPSAS on *Measurement* and other IPSAS. At present, some terminology is different as well as the style of writing.

Preliminary View 3 - Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost - Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

PV3.1 In principle, we agree that the guidance on historical cost should be drawn from existing IPSAS.

PV3.2 We question the interaction between the guidance in the illustrative Exposure Draft and the existing IPSAS on *Intangible Assets.* Paragraph C18 specifically refers to intangible assets and

the treatment of development costs. We question if this is consistent with the idea that the IPSAS on *Measurement* would deal with generic principles and the specific treatment of transactions in the individual IPSAS.

PV3.3 We question the guidance in paragraphs C7 to C19. It seems to be written as a 'guidance manual' rather than clearly articulating principles for when costs are capitalised to the cost of an asset or not. In particular, the discussions on the capitalisation of costs based on how an asset is acquired seems to provide guidance rather than clear principles that could be applied to a range of scenarios. Only the text that clearly articulates a principle should be retained.

PV3.4 We question the need for amortised cost in the 'historical cost' chapter. While we appreciate that there is a view that amortised cost may depict a cost measure, it is not defined in the same way as 'historical cost' in the definitions section of the illustrative Exposure Draft and paragraph C1. The paragraphs – which are drawn from the IASB's Conceptual Framework – are too generic to be of any value in an IPSAS outlining the detailed application of the measurement bases.

PV3.5 Some stakeholders questioned whether amortised cost is always a historical measure. If amortised cost is calculated on a variable rate instrument where the rate resets to a market rate at specified intervals, the amortised cost may be closer to a 'current' measure.

Preliminary View 4 - Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value - Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PV4.1 We support the approach taken to develop the guidance on fair value. We do however have concerns about the use of fair value.

PV4.2 *Fair value, market value and replacement cost*

We are concerned about how fair value, market value and replacement cost are going to be used to measure assets and liabilities.

Use of fair value

- At present, the IPSASB's *Conceptual Framework for General Purpose Financial Reports in the Public Sector* does not include 'fair value' as defined in IFRS 13 on *Fair Value Measurement* as a measurement basis.
- We agree that, in order to maintain alignment with International Financial Reporting Standards, the IPSASB needs to include 'fair value' in its literature. However, we question how it will be used and its interaction with other measurement bases such as 'market value' and 'replacement cost'.
- Fair value, as defined in IFRS 13 is an exit-based measure of assets and liabilities. It is therefore only likely to be relevant when measuring the financial capacity of assets.
- Given our limited support for the use of fair value in IPSAS, this would impact on the modification of IFRS Standards when they are developed as an IPSAS. This would particularly be the case where an IFRS Standard proposes using fair value to measure the 'operational capacity' of an asset. As a result, there may be some need for divergence from IFRS regarding the use of fair value.

Fair value and market value

- At present, the suite of IPSAS recognises assets acquired in non-exchange transactions at 'fair value'. The current definition of 'fair value' in IPSAS could be either an entry or an exit value, which makes it relevant to measuring assets (and liabilities) that are being acquired or sold.
- The current definition of 'fair value' in the suite of IPSAS is consistent with the definition of 'market value' in the IPSASB's Conceptual Framework. In deciding whether to retain 'market value' or replace it with 'fair value', the IPSASB would need to establish (a) whether or when entry values are required, and (b) whether market value or an alternative measurement basis should be used.
- We believe there is a need to use entry values for the initial recognition of assets received, or liabilities assumed, in non-exchange transactions. Other situations may also exist and the IPSASB should fully analyse when other situations may require the use of entry values. While using market value for the initial recognition of non-exchange transactions may be appropriate, we believe having both 'fair value' (as defined in IFRS 13) and 'market value' in the Conceptual Framework/suite of IPSASs is likely to be highly confusing for preparers and users. We would therefore support deleting 'market value'. As an alternative measurement basis where entry values are needed, it may be appropriate to use 'replacement cost' rather than 'fair value', particularly as the initial measurement for non-exchange transactions.

Replacement cost as a measurement basis and an approach to determine fair value

- At present, 'replacement cost' is identified as a measurement basis in the Conceptual Framework and the illustrative Exposure Draft. 'Replacement cost' is also the basis used when applying the 'cost approach' in determining fair value in IFRS 13.
- We do not believe that replacement cost can be used as a measurement basis and as a measurement approach means of calculating fair value.
- The 'cost approach' in IFRS 13 (which is measured using replacement cost) is most commonly used in measuring non-monetary assets such as infrastructure. These assets are likely to be held for their operational capacity rather than their financial capacity. In line with our proposal above, we are of the view that fair value should only be used to measure financial capacity. As a result, it may not be necessary to include the 'cost approach' in the fair value guidance. We suggest removing the 'cost approach' from fair value.

Preliminary View 5 - Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value - Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PV5.1 In principle we agree with using the principles in the Conceptual Framework, we do however have concerns about paragraphs B10 and B11.

PV5.2 Paragraph B10 indicates that the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the obligation. It could be onerous to determine what the potential cost would be to settle the liability internally and seems impractical if an entity is not able to fulfil the obligation using internal capacity. The measurement of liabilities on this basis also does not appear to provide users of the financial statements with relevant information as the entity will record a liability at a lower amount when

it knows that it will not settle it in the manner on which the measurement is determined. While we agree that the least costly amount should be used, it should be constrained by how the entity plans to settle the liability.

Specific Matter for Comment 1 - Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED. Do you agree that the list of definitions is exhaustive? If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

SMC1.1 We agree that the list of definitions is complete. We have specific comments on the definitions included in the illustrative Exposure Draft and how they are interpreted which are included in Part B.

Preliminary View 6 - Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost - Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PV6.1 We broadly support the basis used to develop the replacement cost.

PV6.2 One of the methods used to determine fair value is the 'cost approach' which is based on the 'current replacement cost' of the asset. We have two concerns about this:

(a) It is unclear whether the 'current replacement cost' in IFRS 13 is the same as the 'replacement cost' in Appendix D. While there are similarities in their definitions, different wording is used to describe the same concepts, and the treatment of disposal proceeds at the end of an asset's life is unclear.

(b) If 'current replacement cost' and 'replacement cost' are the same and are calculated on the same basis, it is untenable to have the same measurement basis being used as a measurement basis in its own right (Appendix D) as well as a way of determining another (i.e. fair value in Appendix A).

PV6.3 We have the following comments on the text included in Appendix D:

(a) The guidance in paragraphs D7 to D10 deals with the separation of assets into separate components to determine their useful lives. The separation of assets into components and identifying their useful lives is not unique to the replacement cost measurement basis. In accordance with the IPSAS on *Property, Plant and Equipment* (IPSAS 17), the components of assets and their useful lives should be determined irrespective of whether the historical cost or revaluation method is applied. We therefore suggest removing this section from the replacement cost chapter and it being retained in IPSAS 17.

(b) Paragraph D8 makes reference to "…an entity should have regard to the materiality of the assets in relation to the statement of financial position and also think carefully about what is significant…". The difference between significance and materiality is an area that causes confusion among preparers. These two terms are used here generically and do not provide preparers with any assistance. Components of assets are considered in relation to the cost of an asset – not to the value of assets on the statement of financial position. Guidance should be provided about how significance should be assessed. Given that more explicit guidance is provided in IPSAS 17, we suggest that this discussion should be located in IPSAS 17 rather than in the IPSAS on *Measurement*.

(c) Paragraph D35 - The service units approach seems better suited (as drafted) for an impairment test. Consider whether this measurement technique is needed in this chapter.

CHAPTER 3 – HOW THE ILLUSTRATIVE ED WILL BE DEVELOPED FURTHER

Specific Matter for Comment 2 - Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

SMC2.1 We believe that a more detailed review of the concepts in the addendum is needed to understand what specific differences (if any) exist. While on the face of it some of the words/concepts appear similar, however when applying the specific concepts differences may arise (e.g. 'current replacement cost' and 'replacement cost'). As measurement is a highly technical discipline, more rigour should be applied to establish whether the concepts are exactly the same or are different.

SMC2.2 There is insufficient guidance in the Consultation Paper to be able to adequately comment on whether the concepts of synergistic or equitable value should be reviewed for their relevance in the public sector. We note that these are concepts that are used in the IVS literature and could therefore be used for valuations to achieve a variety of objectives. In order for them to have relevance for financial reporting, they would need to be able to provide relevant information to users of the financial statements to hold entities accountable and to make decisions. If these bases do not contribute to the objectives of financial reporting, then we do not believe they should be considered.

Preliminary View 7 - Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

PV7.1 We support the view that borrowing costs should be expensed as borrowing costs relate to the funding of the asset rather than being an attribute of the asset itself or enhancing its economic benefits or service potential. We support expensing borrowing costs as this achieves greater comparability across entities. We also note that borrowings in the public sector are often limited, or where undertaken, are centralised and usually needed to fund a shortfall in revenue rather than a specific project.

PV7.2 A minority of respondents supported capitalising borrowing costs, but only where the financing is specifically incurred and directly attributable to the asset (option 3 on page 24 of the Consultation Paper).

Preliminary View 8 - Chapter 3 (following paragraph 3.36)

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

PV8.1 We support the proposed definition of transaction costs.

PV8.2 While we support the definition, we have questions about the explanatory guidance outlined on transaction costs, in particular paragraph 26 in the illustrative Exposure Draft. Paragraph 26 refers to the 'costs of ownership transfer'. This term is not commonly used in accounting literature. In our jurisdiction this would likely be translated as referring to transfer duty. We also question if this paragraph is necessary as the explanation in paragraph 25 explains the same concept. It is also unclear how transport costs should be dealt with based on the explanation in paragraph 26.

Preliminary View 9 - Chapter 3 (following paragraph 3.42)

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

PV9.1 We support the view that generic guidance on transaction costs should be provided in the IPSAS on *Measurement*. We note that it may still be necessary to provide specific guidance in the individual IPSAS. The guidance in the individual IPSAS and the IPSAS on *Measurement* should however be consistent.

Preliminary View 10 - Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- Excluded in the valuation of liabilities measured at fulfillment value;

- Excluded from the valuation of assets and liabilities measured at fair value; and

- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

PV10.1 We support the proposed treatment of transaction costs when entering a transaction.

Preliminary View 11 - Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- Included in the valuation of liabilities measured at fulfillment value;

- Excluded from the valuation of assets and liabilities measured at fair value; and

- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

PV11.1 We support the proposed treatment of transaction costs when exiting a transaction.

CHAPTER 4 – APPLYING THE MEASUREMENT PRINCIPLES IN THE CONCEPTUAL FRAMEWORK TO INDVIDUAL IPSAS

Specific Matter for Comment 3 - Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;

- Reducing unnecessary differences with GFS;

- Reducing unnecessary differences with IFRS Standards; and

- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

SMC3.1 In principle we support the idea of the flowcharts and how they will be used. The way in which they are applied should however be flexible enough to allow for outcomes different to the default positions when an alternative basis better achieves the objectives of financial reporting. We also note that the flowcharts are likely only useful for the subsequent measurement of assets and liabilities rather than initial measurement (particularly for non-exchange transactions).

SMC3.2 We have the following comments on the flow chart on assets:

(a) Based on the decision that operational assets should be measured at replacement cost, we believe that this could justify removing the 'cost approach' from fair value. The types of assets that would typically be measured using the 'cost approach' under fair value are specialised assets such as infrastructure. As these assets are likely to be held for their operational capacity and not their financial capacity, there may not be a need for the 'cost approach'.

(b) For the right-hand side of the flow chart that deals with financial capacity, there is no block questioning whether there is a change in the use of the asset from financial to operational capacity (the same block exists for the operational capacity part of the flowchart).

(c) The flow chart should be developed using flow chart conventions. Some of the blocks are 'question' blocks and some 'decision' blocks – without any distinction it is sometimes difficult to understand (particularly the bottom part of the flow charts).

SMC3.3 We have the following comments on the flowchart for liabilities:

(a) The measurement of liabilities is often dependent on the nature of the liability. We therefore believe that there may not be as high a need for a flowchart on liabilities. That being said, the basis outlined for measuring liabilities is reasonable.

(b) We note that there may not be much difference between measuring short term liabilities using either of the measurement bases.

(c) We note that some liabilities, such as financial guarantee contracts and loan commitments could be liabilities of 'uncertain timing and amount'. These are typically measured initially at fair value and then at the higher of the amortised revenue earned from the fee charged and the expected credit losses. While we note that this could be dealt with under the 'consider an alternative measurement basis', it seems inappropriate at the outset to consider a cost of fulfilment approach when existing guidance in IPSAS is very different.

(d) Based on our comments on Appendix C, we note that 'amortised cost' is not 'historical cost' as defined – it may be a historical cost measure. This distinction needs to be made clear in the flowchart and throughout the illustrative Exposure Draft otherwise it is likely to cause confusion.

PART B – OTHER COMMENTS

Area	**Comment**
General	Many of the discussions explaining the application of the measurement bases indicate that the measurement is determined 'at reporting date'. Sometimes reference is made to a 'measurement date', and sometimes both 'reporting date' and 'measurement date. 'Valuation date' is also used. For the measurement bases to be used more widely (for example, on acquisition date for non-exchange transactions, the date of concluding public sector combinations, and at year end), it is suggested that reference is made to 'measurement date'. The individual IPSAS will specify when the measurement should be undertaken.
	The linkages between what will be in the IPSAS on *Measurement* and what will be retained in other IPSAS is sometimes unclear. For example, explanations of replacement cost, service units and reproduction cost are included in the illustrative Exposure Draft. Similar discussions are included in IPSAS 21 and 26. It is unclear if the discussions will be retained in IPSAS 21 and 26.
Definitions	Cost approach: It is unclear if the definition and basis of calculation of 'current replacement cost' as envisaged as part of the 'cost approach' in determining fair value, and replacement cost explained in Appendix D are different. One point to consider is the absence of any discussion on the proceeds from the sale of the asset in the 'cost approach' in determining fair value.
	Market value: the reference to 'market value' is confusing when read with other definitions such as 'market approach', 'market participants', 'market value for assets', 'market value for liabilities'. It seems as if these definitions belong to 'market value' when they actually belong to 'fair value'. The definition should also refer to market value being determined at a 'measurement date' as with the other bases.
	There is no discussion on what a 'market' means or how it should be determined. Given that the public sector often transacts in limited markets (often only with other public sector entities) and/or in restricted markets, we believe it is worth discussing what a 'market' means in the public sector.
	Replacement cost: The definition refers to 'reporting date' – based on comments above, consider changing to 'measurement date'.
	Unit of account: The IASB's Conceptual Framework includes a discussion on 'unit of account'. There is no equivalent discussion in the IPSASB's Conceptual Framework. The IPSASB should consider this as part of its review of the Conceptual Framework.
Main body of ED	Paragraph 12: The 1st sentence indicates that fulfilment value "cannot be observed directly". It is questionable whether this should be mentioned if fulfilment value is an entity specific measurement basis. Consider whether both paragraph 12 and 13 are needed as they explain similar ideas.
	Paragraph 15 to 18 – These paragraphs from the Conceptual Framework are too general to be of any value in an IPSAS that explains how to apply a

	measurement basis. It is suggested that they be deleted. If they are not deleted, we have the following comments: • Paragraph 15/16 – These paragraphs explain depreciation and impairment. Neither of these concepts are unique to historical cost. • Paragraph 18 – This paragraph refers to discounting of liabilities. Discounting could however equally apply to receivables.
	Paragraph 20 – This paragraph refers to reporting date and measurement date interchangeably. Consider only referring to measurement date.
	Paragraph 22 – This paragraph starts out by saying that "…replacement cost is different to fair value because…" This paragraph seems to conflict with the current guidance on fair value which allows the use of replacement cost when applying the 'cost approach'.
Appendix A	If the cost approach is retained, we have the following comment on paragraph A19 - Paragraph D5 explains that a particular asset may need to be situated in a particular location because of legal or social policy decisions. It might be helpful to include a similar discussion in A19 as this is likely to be a reason for not being able to use a non-financial asset for its highest and best use.
	Paragraph A22(a)(i) - It might be helpful to include a reference to heritage assets as collections of heritage assets are often an example where the collection may have more value than the sum of the individual assets.
	Paragraph A29 - The list outlines examples when the transaction price of an asset or liability may be different to the fair value at acquisition. It might be helpful to include in the list that an entity may not charge a market related rate to achieve specific social policy objectives, e.g. the issuing of concessionary loans or financial guarantees where no or a nominal fee is charged.
	Paragraph A39 - There is no mention in A39 or A40 of the inclusion of the proceeds from the disposal of the asset at the end of its life in the valuation (as is the case when replacement cost is discussed in Appendix D).
	If the cost approach is retained, we have the following comments on paragraph A40 - It is unclear whether the determination of replacement cost in this appendix is on an 'optimised' basis or not (as is the case in Appendix D). It would be helpful if the differences between how replacement cost is defined and discussed in Appendix A and Appendix D could be compared, differences identified, and resolved. If they are meant to be determined on the same basis, then Appendix A should refer to Appendix D.
Appendix B	The linkages between this Appendix and existing Standards is unclear. Will the text explaining fulfilment value be removed from IPSAS 19 and IPSAS 42?
	Paragraph B1(c) - Is it necessary to separately list the timing of settlement? This is inherently part of the valuation technique.
	Paragraph B14 - Consider deleting the last sentence as it does not add anything. If this sentence is deleted, consider combining B14 and B15.
	Paragraph B22 - Reference is made to the 'current counterparty'. The counterparty may not be known, which is often the case for provisions. An example is the payment of contractors for a remediation liability. The specific

	contractors may not be known when the provision is recognised so the identification of the 'current counterparty' seems impractical.
	Heading: 'Income Approach' – consider changing the formatting as the next discussion on 'present value techniques seems to be part of the 'income approach'.
	Paragraph B36 - For (b), consider changing the term 'contracts' to 'liabilities'.
	Paragraph B48 - Reference is made to 'current information at the end of the reporting period' – This implies that estimates are only made at year end which may not always be the case (e.g. public sector combinations).
Appendix C	Paragraph C1 - Consider amending as follows: "…at the time of its acquisition and/or development…" so that it is clear that an asset could be both acquired and subsequently developed (this proposed amendment is also consistent with wording in paragraph C11). Also consider changing the tenses of 'develop' or 'acquire' to past tense, i.e. 'developed' or 'acquired'.
	Paragraph C4 – Reference is made to a 'current value'. It is unclear what this 'current value' represents and how it would be calculated.
	Footnote 38 - "The application guidance focuses on historical cost for assets, because the consultation paper's flow chart for liability indicates that historical cost is not applicable to the measurement of liabilities." Page 41 of the Consultation Paper however seems to refer specifically to historical cost. This footnote seems to be inconsistent with the flow chart in the Consultation Paper.
	Paragraph C8 - Review the drafting of the last sentence as some wording seems to be missing.
	Paragraph C10 - An example of a bond is used in this paragraph. As bonds are initially measured at fair value at acquisition, this example seems inappropriate in a discussion of amortised cost.
	Paragraph C15(b)(v) - The IASB is proposing changes to whether these proceeds can be included in the cost of the assets. The IPSASB should monitor the project to ensure that the latest developments are included in the IPSAS on *Measurement*.
Appendix D	Paragraph D1 and D2 - The different use of the term 'reporting date' and 'measurement date' is observed.
	Paragraph D7 - The reference to 'design lives' should be changed to 'economic lives'. Design life is a term generally used by engineers and is often inconsistent with the idea of economic life for accounting purposes. Engineers will not change or extend the 'design life' of an asset, but for accounting purposes the actual use of an asset by all users (i.e. economic life) may extend beyond an asset's design life.
	Paragraph D16 - This paragraph should make it clear that even though land is included in the valuation, it should be accounted for separately in accordance with the relevant IPSAS.
	Paragraph D21 - Reference is made to 'listed' assets. It is unclear what this means.

	Paragraph D36 - Reference is made to “date of valuation” – consider amending as suggested.
	Paragraph D38: The reference to borrowing costs be deleted.

October 4, 2019

384935

John Stanford
Technical Director
International Public Sector Accounting Standards Board
277 Wellington St. West
Toronto, ON M5V 3H2

Dear John:

RE: Measurement Consultation Paper

Thank you for the opportunity to provide comments on the consultation paper titled, "Measurement". The views expressed in this letter reflect the views of the Government of the Province of British Columbia, including central agencies, ministries and entities consolidated into the British Columbia Summary Financial Statements. The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. We have an interest in the development of IPSASB's guidance as it may influence future PSAB standards.

We are encouraged by the IPSASB's objectives for this project. The identification and definition of the critical measurement bases, along with appropriate guidance, will help to improve the quality of application within and among entities that use the standards. We continue to be concerned about the use of private sector standards as the basis for public sector accounting standards as these two have different financial reporting objectives.

While concepts from the business world certainly can and do have applicability to the public sector, our preference is for accounting concepts and standards that are rooted in meeting the financial reporting objectives for governments. For example, government reporting typically emphasizes the reporting of revenue and expense against budget and this discussion is absent in the consultation paper.

In IPSASB's approach to measurement, there is an interpretational risk raised because the standards do not have a definition of exchange and non-exchange transactions. This is an

…/2

Ministry of Finance
Office of the Comptroller General
Mailing Address:
PO Box 9413 Stn Prov Govt
Victoria BC V8W 9V1
www.fin.gov.bc.ca/ocg
Location Address:
2nd Floor
617 Government Street
Victoria BC

issue when accounting for transactions like contributed assets in the public sector. Until these significant public sector transactions are defined, there will be ambiguity that could create conflict between these measurement principles and issued standards.

Responses to specific questions posed in the consultation paper are attached. Should IPSAB have any comments or questions, please contact me at: 250-387-6692 or via e-mail: Carl.Fischer@gov.bc.ca, or Diane Lianga, Executive Director, Financial Reporting and Advisory Services Branch, at 778-698-5428 or by e-mail: Diane.Lianga@gov.bc.ca.

Sincerely,



Carl Fischer, CPA, CGA
Comptroller General
Province of British Columbia

Encl.

cc: Carol Bellringer, FCPA, FCA
Auditor General
Province of British Columbia

Diane Lianga, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Preliminary View 1—Chapter 2

The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

We agree that these measurement bases cover major types of transactions for initial and subsequent measurement. It would be helpful to the reader if in addition to the above, measurement bases such as transaction price as it relates to the satisfaction of performance obligations and carrying value as it relates to inter-entity transactions and restructuring transactions were also discussed.

Preliminary View 2—Chapter 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

We agree that there should be application guidance for the most commonly used measurement bases. It would be helpful to the reader if all the bases of measurement, and how they relate to the fair value, fulfillment value, historical cost and replacement cost were identified.

Preliminary View 3—Chapter 2

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost– Application Guidance for Assets, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

We agree that this section defines historical cost and provides detailed application guidance for assets. However, it omits guidance for the measurement of liabilities even though historical cost is identified as an option for liabilities in Diagram 4.2.

Preliminary View 4—Chapter 2

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

We agree that this section defines fair value accounting and provides detailed application guidance and that IFRS 13 is an appropriate source for material relating to fair value.

By including very detailed and prescriptive guidance in Appendix A, there is a risk of creating opportunities for rules to take the place of principles. Accounting standards are not the appropriate place for detailed explanations of accounting and financial techniques and suggest that these be available separate from accounting standards.

We note that jurisdictions that are considering moving to accrual accounting or to IPSAS may be less likely to adopt standards that are perceived as being too prescriptive.

Preliminary View 5—Chapter 2

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

We agree that this section defines fulfilment value and provides detailed application guidance.

Preliminary View 6—Chapter 2

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

We agree that this section defines replacement cost and provides detailed application guidance.

Preliminary View 7—Chapter 3

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.
Do you agree with the IPSASB's Preliminary View?
If not, please state which option you support and provide your reasons for supporting that option.

No, we do not agree. Borrowing costs incurred during the construction of an asset are a valid component of capitalized cost, provided the policy is applied consistently by the entity. It would be difficult to define how borrowing costs differ from other costs required to make an asset ready for use.

Preliminary View 8—Chapter 3

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

> **Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.**

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Yes, we agree.

Preliminary View 9—Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Yes, we agree.

Preliminary View 10—Chapter 3

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- **Excluded in the valuation of liabilities measured at fulfillment value;**
- **Excluded from the valuation of assets and liabilities measured at fair value; and**
- **Included in the valuation of assets measured at historical cost and replacement cost.**

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

We agree that in general the transaction costs incurred entering these transactions do not impact fulfillment value or fair value, which are exit-based. They do impact the entry-based historical or replacement cost of assets.

Preliminary View 11—Chapter 3

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- **Included in the valuation of liabilities measured at fulfillment value;**
- **Excluded from the valuation of assets and liabilities measured at fair value; and**
- **Excluded in the valuation of assets measured at historical cost and replacement cost.**

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

We agree that transaction costs incurred exiting a transaction do impact the fulfillment value, as they are a part of the accrued cost. They do not impact fair value because this indicates the amount an entity would receive to sell an asset or pay to settle a liability, neither of which includes the transaction costs. Also, they do not impact the entry-based historical or replacement cost of assets.

Specific Matter for Comment 1—Chapter 2

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED. Do you agree that the list of definitions is exhaustive?
If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

The definitions for "discount rate adjustment technique" and "expected present value technique" from Appendix A are not included in the list.

It may be helpful to include a list of measurement-related definitions that are included in other sections to help join these concepts together.

Specific Matter for Comment 2—Chapter 3

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?
Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

Canadian public sector accounting standards are not aligned with IVS or GFS and we have no comment about this topic.

Equitable value and synergistic value appear to be very similar to fair value.

Specific Matter for Comment 3—Chapter 4

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- **The Conceptual Framework Measurement Objective;**
- **Reducing unnecessary differences with GFS;**
- **Reducing unnecessary differences with IFRS Standards; and**
- **Improving consistency across IPSAS.**

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

We agree that the flowchart for assets (D4.1) provides a helpful starting point. However, the flow chart for liabilities (D4.2) does not include the subsequent fair valuation of liabilities as an option even though they are included under fair value in the in-Appendix A.

Other Comments

Thank you for the opportunity to provide comments on the consultation paper titled, "Measurement". The views expressed in this letter reflect the views of the Government of the Province of British Columbia, including central agencies, ministries and entities consolidated into the British Columbia Summary Financial Statements. The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. We have an interest in the development of IPSASB's guidance as it may influence future PSAB standards.

We are encouraged by the IPSASB's objectives for this project. The identification and definition of the critical measurement bases, along with appropriate guidance, will help to improve the quality of application within and among entities that use the standards. We continue to be concerned about the use of private sector standards as the basis for public sector accounting standards as these two have different financial reporting objectives.

While concepts from the business world certainly can and do have applicability to the public sector, our preference is for accounting concepts and standards that are rooted in meeting the financial reporting objectives for governments. For example, government reporting typically emphasizes the reporting of revenue and expense against budget and this discussion is absent in the consultation paper.

In IPSASB's approach to measurement, there is an interpretational risk raised because the standards do not have a definition of exchange and non-exchange transactions. This is an issue when accounting for transactions like contributed assets in the public sector. Until these significant public sector transactions are defined, there will be ambiguity that could create conflict between these measurement principles and issued standards.

SRS CSPCP
Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor
Conseil suisse de présentation des comptes publics
Commissione svizzera per la presentazione della contabilità pubblica
Swiss Public Sector Financial Reporting Advisory Committee

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

Lausanne, October 8, 2019

Swiss Comment to

Consultation Paper Measurement

Dear John,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to Consultation Paper Measurement. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments for the Consultation Paper in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP

Prof Nils Soguel, President

Evelyn Munier, Secretary

Swiss Comment to Consultation Paper Measurement

Sekretariat | Secrétariat | Segretariato
IDHEAP | University of Lausanne |· CH – 1015 Lausanne
T 021-692.68.58 · F 021-692.68.09
www.srs-cspcp.ch

Swiss Comment to

Consultation Paper Measurement

Table of Content Page

1. Introduction 3

2. General Remarks 3

3. Preliminary View 1 – Chapter 2 3

4. Preliminary View 2 – Chapter 2 4

5. Preliminary View 3 – Chapter 2 4

6. Preliminary View 4 – Chapter 2 4

7. Preliminary View 5 – Chapter 2 5

8. Preliminary View 6 – Chapter 2 6

9. Preliminary View 7 – Chapter 3 6

10. Preliminary View 8 – Chapter 3 6

11. Preliminary View 9 – Chapter 3 7

12. Preliminary View 10 – Chapter 3 7

13. Preliminary View 11 – Chapter 3 7

14. Specific Matter for Comment 1 – Chapter 2 7

15. Specific Matter for Comment 2 – Chapter 3 8

16. Specific Matter for Comment 3 – Chapter 4 8

1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the 26 cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).
The SRS-CSPCP has discussed the CP Measurement and comments as follows.

2. General Remarks

The SRS-CSPCP appreciates the improved and extended structure of this Consultation Paper. It is of the opinion that the additional inclusion of a draft ED represents real added value for the consultation. The appended Draft ED enables the respondents to gain at an early stage a picture of the future Standard and to formulate their responses accordingly.
The SRS-CSPCP is basically of the opinion that a new Standard on Measurement makes sense. As the IPSASB has already stated, various measurement bases are distributed over a number of IPSAS Standards. It would therefore be logical to combine all these bases in a single Standard. A second reason for drawing up an own standard on measurement bases lies in the fact that the Standards are more binding on the user than the Conceptual Framework.
However, the SRS-CSPCP finds that there are some discrepancies in the definitions, which are repeated in various passages of the Consultation Paper. This makes more difficult the considerations about the comments to be given. Further, the SRS-CSPCP has the impression that the IPSASB's proposals and in particular the terminology used tend to be too closely aligned with the private sector.
Consistency of the new Standard with the provisions of the Conceptual Framework is also a key point.

3. Preliminary View 1 – Chapter 2

The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

The SRS-CSPCP agrees with the IPSASB's view. The four proposed measurement bases are those, which are most frequently applied or should possibly exclusively be used. Therefore, in the new Standard the four above mentioned bases (*fair value, fulfillment value, historical cost, replacement cost*) should be described and together with how they should be implemented.
If other measurement bases are mentioned in other Standards, they should as far as possible be replaced by the four above mentioned bases. If, however, the IPSASB concludes that for one or the other Standard other measurement bases than the four mentioned measurement bases must be applied, these other bases should also be explained and described. Depending on the frequency with which these other measurement bases are employed, is to be decided whether they too are described and explained in the Measurement Standard or in the relevant Standard.
For the SRS-CSPCP a consistent way to linking both the Conceptual Framework and the individual Standards in respect of the measurement bases is important. Therefore there

should be no duplications in the definitions or discrepancies between the recommendations how to implement the various bases in the various documents.

4. Preliminary View 2 – Chapter 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

The SRS-CSPCP is in agreement with the IPSASB's view: In the new Standard the most commonly used measurement bases must be described and their application explained. This facilitates the application of these bases in all the Standards concerned. Thus, details of the measurement should then be governed and explained individually in the Standards concerned. However, the SRS-CSPCP points out that in the individual Standards no elements, e.g. a different/alternative measurement base, should be introduced, which have not beforehand been mentioned in the "Base Standard" (i.e. in the *IPSAS Measurement*).

5. Preliminary View 3 – Chapter 2

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed?

The SRS-CSPCP supports the IPSASB's view that guidance for historical cost should be derived from the existing IPSASs. As historical cost may apply not only for fixed assets and intangible assets, but also for liabilities, this point or possibility should be left open in the definition.
The SRS-CSPCP considers it important that subsequent measurements are also described and explained in this Standard. If this is not possible as a result of special requirements or characteristics of an asset, then these subsequent measurements should only be governed in the Standard concerned (i.e. not in the *IPSAS Measurement*).

6. Preliminary View 4 – Chapter 2

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed?

The SRS-CSPCP is of the opinion that IFRS 13 cannot be applied to the public sector unreservedly. It is not in agreement with the idea that the definition of and the guidance on *fair value* are closely aligned with IFRS 13.

The SRS-CSPCP makes the following comments:

1) In Appendix B there are four definitions of *fair value*, which are similar but not completely identical. The SRS-CSPCP considers it important that the considered definitions remain consistent in order to avoid misunderstandings and false interpretations.
2) The expressions "*most advantageous market*" (see Point A.7) and "*highest and best use*" (see Points A.18 and A.19) are not relevant for the public sector; indeed it is not compatible with the prudence principle, which is important for public entities.
3) Point A.15 refers to a market with several marketable goods. However such a market in the public sector, if it even exists, is available only for fixed assets and financial instruments. The SRS-CSPCP therefore proposes adjusting the chapter on *fair value* to the public sector, in particular by introducing references to IPSAS 21 and IPSAS 26 and adding examples.
4) IFRS 13 in the form presented can be employed at most for the measurement of financial instruments and investment properties. It is not a method, which can be applied in the historical cost model, not even e.g. indirectly over IPSAS 21 or IPSAS 26. In the paper under consideration, relevant statements on the relationship/interaction between IFRS 13 and the two Impairment Standards are missing. The SRS-CSPCP proposes adding these relationships in the BC of the ED.

7. Preliminary View 5 – Chapter 2

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

Although the guidance on *fulfilment value* is based on the *Conceptual Framework,* which was drawn up specifically for the public sector, the SRS-CSPCP has the impression that the definitions are in part too closely aligned with the private sector. For example, in Section B.1 "*least costly measure*" is mentioned, an expression which relates more to the private sector than the public sector.
The SRS-CSPCP has the impression that Sections B.14 and B.33 are rather contradictory. It suggests that the IPSASB review this and, if necessary, make the necessary adjustments. At the same time Section B.33 could be written in less detail.
In Appendix B it is also stated that the *time value of money* must follow the market. But in the public sector this should not necessarily be so. The IPSASB has a research project on *discount rates*. If this project also covers the *time value of money*, the new Measurement Standard should not discuss it further.
The SRS-CSPCP is of the view that the entire section should be revised everywhere where the relevance to the public sector is not clear.

8. Preliminary View 6 – Chapter 2

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

Although the guidance in Appendix D is based on the Conceptual Framework, here too the SRS-CSPCP also has the impression that the definitions are too closely aligned with the private sector. For example, in Section D.1 "*most economic cost*" is mentioned. However, in the public sector this is not necessarily the applicable criterion. The SRS-CSPCP is of the view that the most possible exact costs of providing a service must be adduced. And this is not necessarily the *most economic cost.*

9. Preliminary View 7 – Chapter 3

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.
Do you agree with the IPSASB's Preliminary View?
If not, please state which option you support and provide your reasons for supporting that option.

The SRS-CSPCP is of the view that the distinction between borrowing costs and transaction costs is not always very clear. It therefore wishes that the definition of borrowing costs per IPSAS 5 be taken up in the new Standard. In that definition it is clear that not only interest is part of borrowing costs, but also all costs incurred by a public entity in connection with raising debt. The following example illustrates the problem: a public entity requires a bank loan to build a school. It commissions an intermediary to find a credit institute with the most favorable conditions. The intermediary's costs are presumably transaction costs, but there is no guidance as to whether these costs could or could not also be regarded as borrowing costs.
The SRS-CSPCP points out that transaction costs are defined in the new Standard. Therefore, for the sake of completeness and to provide a better understanding, the borrowing costs should also be defined.
The SRS-CSPCP agrees with the IPSASB's view on the recognition of borrowing costs and pleads that they may not be capitalized, but directly expensed in the income statement.

10. Preliminary View 8 – Chapter 3

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

The SRS-CSPCP agrees with this definition, with the provison that the distinction between transaction and borrowing costs is clarified (see Response to *Preliminary View 7*).

11. Preliminary View 9 – Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

The SRS-CSPCP agrees with this view. It points out that borrowing costs must also be considered in the new Standard (see Response to *Preliminary View 7).*

12. Preliminary View 10 – Chapter 3

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

The SRS-CSPCP agrees with this view.

13. Preliminary View 11 – Chapter 3

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

In the view of the SRS-CSPCP the transaction costs should also be included in a fair value measurement, because in principle they are borne by the selling party.
The SRS-CSPCP agrees with the other viewpoints of the IPSASB.

14. Specific Matter for Comment 1 – Chapter 2

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.
Do you agree that the list of definitions is exhaustive?
If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

The SRS-CSPCP has read through the various definitions and is of the view, as already mentioned in the Response to *Preliminary View 7,* that the definition of *borrowing cost* per IPSAS 5 should be added. It is also of the opinion that the definition of transport costs should be eliminated.

15. Specific Matter for Comment 2 – Chapter 3

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

The SRS-CSPCP is of the opinion that a convergence of IPSAS and GFS is important and should in any case be continued in order to achieve a reduction of the existing differences. In contrast a convergence with IVS and relevance to the concepts of *Equitable Value* and *Synergistic Value* are not necessary. Up to now, at least in the consultation documents issued by the IPSASB, there has been no mention of this.

The SRS-CSPCP therefore finds that new Standards and concepts should not suddenly be introduced for comparative purposes. For this reason, the IPSASB can refrain from reviewing the relevance of both concepts.

16. Specific Matter for Comment 3 – Chapter 4

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;

- Reducing unnecessary differences with GFS;

- Reducing unnecessary differences with IFRS Standards; and

- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

The SRS-CSPCP finds that diagrams are in principle useful and instructive. In this case, however, the added value is very limited. The Diagram 4.1 presented demonstrates so many possibilities that the user is rather confused than that he is helped in the choice of the correct measurement base. Following the design of this diagram, in all cases, almost all bases can be applied and may also be changed over time. For reporting consistency, this is however a significant disadvantage. The more so, because in both diagrams changes in measurement bases of assets or liabilities which are already present in the public entity's balance sheet are mentioned. But this topic is not addressed in this *Consultation Paper*.

Instead, the SRS-CSPCP proposes to the IPSASB that it designs a diagram, from which can be seen which measurement bases are applied in which IPSASs.

Lausanne, October 4, 2019

KOREA INSTITUTE OF PUBLIC FINANCE
Government Accounting and Finance Statistics Center

IPSASB Consultation Paper

Measurement

Comments on the Consultation Paper, Measurement

September 20, 2019

September 20, 2019

John Stanford
Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: The comments on the Consultation Paper,

Measurement

Dear Mr. Stanford,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the "GAFSC") at Korea Institute of Public Finance would like to thank for the opportunity to response to Consultation Paper, *Measurement* issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff and the Government Accounting Advisory Committee of the GAFSC, and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of the GAFSC, Jin Woong (jjwoong@kipf.re.kr).

Sincerely,



Moon, Chang-Oh
Vice Acting Director of GAFSC at KIPF

Preliminary View 7 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

[GAFSC comments] We do not agree with the IPSASB's Preliminary View. We would propose that in principle, the borrowing costs be capitalized for qualifying assets. Otherwise would allow it to be expensed if capitalizing borrowing costs is challenging to apply.

As mentioned in paragraph 3.13 of the Consultation Paper, it is not difficult for all public sector entities to track and attribute borrowing costs for individual qualifying assets. Among the public sectors, central government may find it challenging to attribute borrowing costs for qualifying assets because of centralized borrowing decisions. However, most of the remaining public sector entities, including local governments and public corporations, have the authority to make their own borrowing decisions, so it would not be difficult to track and attribute borrowing costs. In Korea, in this regard, the central government is required to account for all borrowing costs to be expensed, whereas public corporations are required to capitalize borrowing costs aligning with IFRS.

When borrowing costs are capitalized, it can increase the usefulness of accounting information that is useful for both enhancing accountability and decision making by linking borrowing costs to assets by which borrowing costs is incurred. In addition, since not only it coincides with the concept of acquisition costs, but also borrowing costs are recognized as expenses over the relevant reporting period, to capitalize borrowing costs has a firmer foundation in the perspective of accounting concept than to account for borrowing costs as an expense.

Qualifying assets subject to capitalization of borrowing costs are usually measured at historical cost, an applied criteria for entry based measurement basis. When economic resources are measured at entry value, users of financial statements expect to obtain information about the amount paid to acquire the asset. Therefore, borrowing costs should be included in the amount required to acquire an asset and it could be

useful to users of financial statements to assess accountability and decision making.

Accordingly, it is difficult to find a valid reason for IPSASB to make IPSAS be departed from IFRS regarding the principle of accounting for borrowing costs. Therefore, it is reasonable to use the principle of capitalizing borrowing costs for qualifying assets, as required by IAS 23. As such, capitalizing borrowing costs could help IPSAS to be aligned with IFRS, as noted in the Consultation Paper, and would reduce the burden of transitioning financial statements for public sector entities required to apply both IPSAS and IFRS.

However, it is necessary to consider whether it is appropriate to provide a practical expedient that would allow entities in the public sector, specifically central government in case it is incapable of tracking and attributing borrowing costs for qualifying assets to account for borrowing costs as an expense.

[Additional comments]

Apart from the feedback on PV 7, in addressing whether or not to departing from IFRS, IPSASB should consider whether the rationale for departure is based on the theoretical differences between the public and private sectors or the practical conditions of the public sector. If the theoretical differences lead to departing from IFRS, it is reasonable to develop principles specific to the public sector. On the other hand, if the departure from IFRS is needed due to practical conditions of the public sector, it would be appropriate to use the same accounting principles with IFRS but to give the public sector entities an option to choose alternative accounting principle in the form of a practical expedient.

Preliminary View 8 (following paragraph 3.36)

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

[GAFSC comments] We agree with the IPSASB's Preliminary View.

Preliminary View 10 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

[GAFSC comments] We agree with the IPSASB's Preliminary View.

Preliminary View 11 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

[GAFSC comments] We agree with the IPSASB's Preliminary View.

[Additional comments on the PV8, PV10 and PV11]

As mentioned in paragraph 2.27 of the Consultation Paper, as the IPSAS provide limited guidance on applying fulfillment value, it makes difficult to predict the type or examples of transaction costs that could arise when entering into or exiting a transaction in respect of a liability measured at fulfillment value. In particular, in measuring a liability at fulfillment value, preparers would be likely to estimate the amount of future cash flows required to settle the liability including both the (expected) settlement amount and the (expected) transaction costs. In other words, measuring a liability at fulfillment value implicitly includes the transaction costs required to exit the transaction.

Given these features of fulfillment value, IPSASB needs to provide additional explanations or examples of the transaction costs incurred when entering or exiting the transaction in respect of the liability measured at fulfillment value. It would be informative to discuss the definition and accounting principles of transaction costs.

Specific Matter for Comment 3 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

[GAFSC comments] We agree in principle with the measurement flow chart proposed by the IPSASB

We suggest to consider the following. GFS guides to measure the liability at market value rather than historical cost. By the way the Consultation Paper states to measure a liability at historical cost in case the amount is certain and the date of settlement is known. So the flow chart proposed by the IPSASB may incur a

difference between IPSAS and GFS.

Treasury Board of Canada Secretariat
Secrétariat du Conseil du Trésor du Canada

Comptroller General of Canada
Contrôleur général du Canada

Ottawa, Canada
K1A 0R5

John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ONTARIO
M5V 3H2

Dear Mr. Stanford:

SUBJECT: Consultation Paper: *Measurement*

Thank you for the opportunity to comment on the Consultation Paper: *Measurement* issued in April 2019.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). The Government of Canada is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS are regarded as an important secondary source of generally accepted accounting principles.

Our responses to the specific matters for comment on the Consultation Paper (CP) and illustrative exposure draft (ED) are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Consultation Paper. If you require further information, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at diane.peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

Diane Peressini
Executive Director,
Government Accounting Policy and Reporting

c.c.: Roger Ermuth, Assistant Comptroller General of Canada

Canada

APPENDIX

Responses to Specific Matters for Comment

Preliminary View 1—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Response:
We support Preliminary View 1, and agree that application guidance for fair value, fulfillment value, historical cost and replacement cost will be useful to aid in consistent application of these commonly used measurement bases across the IPSAS suite of standards.

Preliminary View 2—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

Response:
We agree with Preliminary View 2, that generic guidance on the identified measurement bases should be included in the Measurement standard, whereas transaction specific guidance should be included in the individual IPSAS.

Preliminary View 3—Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:
We partially agree.

We agree that generic guidance on historical cost can be drawn from the existing text in individual standards. However, we have the following comments on the proposed guidance in Appendix C:

- Paragraph C3: Cash price equivalent (IPSAS 16.31) – we believe that a definition of this term should be included in the list of definitions (Illustrative ED, paragraph 6), as this text is no longer in the context of investment property.

- Paragraph C4: We agree that, for a non-monetary exchange, determining historical cost based on the current value of the asset given up aligns with the concept of historical cost. However, the CP states that the guidance in Appendix C is carried forward from existing IPSAS (IPSAS 17 *Property, Plant & Equipment*, paragraph 17.38 and IPSAS 16 *Investment Property* paragraph 16.36), which is not the case as the current requirement is that the transaction is measured based on the fair value of the asset acquired. In our opinion, this is a significant change to the measurement requirements which should be clearly explained in the Basis for Conclusions.

- Paragraphs C20-C21: Measurement guidance on the historical cost of financial liabilities is included in these paragraphs, consistent with the discussion in the core text on the historical cost of liabilities. However, the title of Appendix C refers to assets only, and footnote 38 to the ED states that historical cost does not apply to liabilities. We suggest that these inconsistences be resolved.

Preliminary View 4—Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:
We partially agree with this Preliminary View.

We agree that the fair value guidance should be aligned with IFRS 13, taking into account public sector characteristics and reporting needs.

However, we do not agree that the paragraphs in IFRS 13 relating to liabilities and entity's own equity instruments (IFRS 13.34-56, IFRS 13.70-71 and IFRS 13.B31-33) should be relocated to IPSAS 41, *Financial Instruments*. These paragraphs include guidance on the measurement of non-financial liabilities and an entity's own equity instruments, neither of which are financial instruments. Therefore, we suggest that they remain with the fair value guidance in the Measurement standard.

Preliminary View 5—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:
We partially agree with this Preliminary View.

We agree that the guidance on fulfillment value should be based on the concepts in the conceptual framework and expanded for application in IPSAS. However, we do not agree with the proposed guidance on including a risk adjustment in fulfillment value measurement, outlined in Appendix B, as we believe that this requirement may result in the overstatement of liabilities.

Risk adjustment
The rationale for a risk adjustment stated in paragraph B33 of Appendix B is that "the risk adjustment conveys information to users of financial statements about the entity's perception of the effects of uncertainty about the amount and timing of cash flows that arise from the liability". We note that IPSAS 1 *Presentation of Financial Statements* requires disclosures about the sources of measurement uncertainty; this requirement already provides users with additional information on estimates that is useful for accountability and decision-making.

We understand that the purpose of the proposed risk premium is to adjust the liability to reflect the amount of compensation the entity would require so that it is indifferent between variable and fixed cash flows. However, adding a risk premium results in an estimation of the liability that is at the higher end of a range rather than a central estimate. Consequently, we question whether the risk premium provides faithfully representative and relevant information to users about the extent of the entity's obligations to be settled in the future:

- In general, we find the guidance in the illustrative ED on the risk premium for fulfillment value to be overly complex and lacking in clarity.
- We believe that adding a risk premium may conflict with the objective of the fulfillment value measurement basis, which is to reflect the costs the entity will incur in fulfilling the obligation, assuming it does so in the least costly manner. Where the fulfillment value depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.
    - In our opinion, adding a risk premium does not reflect the least costly manner to fulfill the liability, and reflects a bias in the estimate due to the entity's perception of its indifference to variable and fixed cash flows.
- We question the appropriateness of the adaptation of the guidance from IFRS 13:
    - The fair value guidance in IFRS 13 (contained in Appendix A to the illustrative ED) requires a risk adjustment because market participants would require compensation for the uncertainty inherent in the future cash flows.
    - The proposed guidance in paragraphs B14 and B15 related to a risk premium for fulfillment value requires the use of market-based assumptions that may not be relevant to a public sector entity.

- We also question the appropriateness of the adaptation of the guidance from IFRS 17 *Insurance Contracts:*
    - We note that some of the proposed text is drawn from IFRS 17 *Insurance Contracts* (IFRS 17, paragraphs B87, B90-92). However, IFRS 17 specifically requires the addition of a risk premium for non-financial risk, on the basis that financial risks are included in the estimation of the future cash flows or the discount rate.
    - Conversely, paragraph B34 of the ED states that the risk adjustment should reflect all risks associated with the liability other than general operational risk.
    - Consequently, it appears that financial risks would be double-counted by adding a risk premium to public sector liabilities measured at fulfillment value. As well, determination of whether there are other types of risks for which a risk premium could be relevant in the context of fulfillment value needs clarification.

Consequently, we believe that more guidance and discussion is required on the appropriateness of adding a risk premium for liabilities measured at fulfillment value, and that criteria be developed for identifying public sector transactions where its inclusion in the measurement of the liability is relevant. As well, the use of market-based risk adjustments may not be appropriate and, therefore, guidance on establishing a risk adjustment that is relevant to public sector entities should be developed.

Preliminary View 6—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:
We partially agree.

We agree that the guidance on replacement cost should be based on the concepts in the conceptual framework and expanded for application in IPSAS. However, we have comments on the proposed guidance in Appendix D as follows:

- The intent of including guidance in the IPSAS *Measurement* is that it is generic rather than specific. Consequently, the specific guidance in Appendix D (for example, D7-D10, D16-D22) should be included in the applicable individual standards.
- Characteristics of an asset (D3, D13): Paragraph D3 states that the factors impacting the replacement cost of the asset relate to either the characteristics of the asset itself or to the intended use of the asset. However, paragraph D13 states that the characteristics of an asset include the intended use of an asset. We find this confusing and suggest that the guidance be clarified.
- Historic significance (D20) – In our opinion, it is not possible to recreate the historic significance of a building. However, in circumstances where reproducing a historic building rather than replacing it with a modern equivalent would be necessary to maintain the service potential of the historic building, reproduction costs should be considered in determining the replacement cost. We suggest that the guidance needs clarification on this point.

Preliminary View 7—Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. Do you agree with the IPSASB's Preliminary View?
If not, please state which option you support and provide your reason s for supporting that option.

Response:
We agree with the Preliminary View that all borrowing costs should be expensed.

We agree that it is appropriate to expense all borrowing costs because such costs are not a characteristic of the asset, nor do they relate to the intended use of the asset.

We considered whether option 3 (capitalization of borrowing costs when they are directly and specifically attributable to the asset) would be appropriate when the borrowing is tied to the asset; this would refute the argument against capitalization in the CP, which is that borrowing tends to be centralized by governments. However, the more important consideration is that the financing decision is not relevant to the measurement of the asset, and, therefore, we agree that borrowing costs should be expensed rather than included in the cost of the asset. We suggest that the arguments for option 4 be strengthened in this regard.

Preliminary View 8—Chapter 3 (following paragraph 3.36)
The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Response:
We agree with the proposed definition of transaction costs, which is the same as that in IPSAS 41 *Financial Instruments*.

Preliminary View 9—Chapter 3 (following paragraph 3.42)

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Response:
We agree that transaction costs should be addressed in the IPSAS, *Measurement*, because it is important to consistently account for transaction costs, as appropriate, under the various measurement bases.

Preliminary View 10—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response:
We agree that transaction costs incurred when entering a transaction should be included in the measurement of an asset or liability when the measurement basis reflects an entity-specific entry value. Therefore, historical cost and replacement cost measurements should include transaction costs incurred on initial acquisition. Fair value measurements are market-based exit values, not entity-specific, and therefore the transaction costs on initial acquisition or issuance of the asset or liability are not relevant to this measurement basis.

However, the preliminary view should also be clear that the measurement of liabilities at historical cost includes transaction costs. This would be consistent with the guidance in IPSAS 41 *Financial Instruments,* which requires that all fees and points paid that are an integral part of the effective interest rate are included in determining amortized cost of the financial asset or liability.

Although the IPSAS, *Measurement,* refers only to selected measurement bases outlined in the conceptual framework, the "assumption price" measurement basis for liabilities is also an entity-specific entry value. This measurement basis in the context of liabilities refers to the same concept as replacement cost for assets. Therefore, consideration should be given as to whether transaction costs initially incurred on entering into the transaction should be included for liabilities that are measured under this basis.

Preliminary View 11—Chapter 3 (following paragraph 3.54)
The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response:
We agree that transaction costs incurred when exiting a transaction should be included in the measurement of an asset or liability when the measurement basis reflects an entity-specific exit value. Therefore, fulfillment cost measurements of liabilities should include transaction costs incurred on settling the liability. Fair value measurements are market-based, not entity-specific, and therefore the transaction costs incurred to exit a transaction are not relevant to this measurement basis.

However, the proposals do not consider other measurement bases listed in the conceptual framework that are entity-specific exit measurement bases: net selling price and value in use for assets, and cost of release for liabilities. In particular, as net selling price is generally used to measure inventory, and by definition includes the costs of sale, we believe that the IPSAS *Measurement* should confirm that transaction costs are included in this measurement basis.

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.
Do you agree that the list of definitions is exhaustive?
If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Response:
As noted in our response to Preliminary View 3 above, we believe that "cash price equivalent" should be included in the list of definitions. We do not have any other suggestions for the list of definitions.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?
Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

Response:
We do not have any views on this specific matter for comment.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:
- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.
If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

Response:
We agree that the measurement methodology proposed and outlined in the assets and liabilities measurement flowcharts will provide a helpful framework to determine whether the requirements in new or existing IPSAS reflect the measurement objective in the conceptual framework. We believe that achieving the conceptual framework measurement objective is the most important factor; although the other factors listed may be relevant, these should not override the achievement of the measurement objective.

Other matters
We understand that the IPSASB intends to perform a limited scope review of the conceptual framework, which will include a review of the "market value" versus "fair value" measurement bases. We suggest that the IPSASB also reviews the other measurement bases listed in the conceptual framework that are excluded from the IPSAS *Measurement*, in particular cost of release and assumption price, to determine the circumstances in which these measurement bases would be applied.

CIPFA The Chartered Institute of Public Finance & Accountancy

Respondent 12

IPSASB Consultation Paper
Measurement

Response from the Chartered Institute of Public Finance and Accountancy (CIPFA)

10 October 2019

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

Any questions arising from this submission should be directed to:

Don Peebles
Head of CIPFA Policy & Technical UK
CIPFA
Level 3 Suite D
160 Dundee Street
Edinburgh
EH11 1DQ
Tel: +44 (0)131 221 8653
Email: don.peebles@cipfa.org

Steven Cain
Technical Manager
CIPFA
77 Mansell Street
London
E1 8AN

Tel: +44 (0)20 543 5794
Email: steven.cain@cipfa.org

Our ref: Responses/ 191010 SC0259

IPSASB Consultation Paper *Measurement*

CIPFA is pleased to present its comments on this consultation paper which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

The issue of measurement is a key matter for financial reporting, and CIPFA was conscious that the discussion of this matter in the development of the IPSAS Conceptual Framework left some matters unresolved. In our response to IPSASB Conceptual Framework Exposure Draft Phase 3 - *Measurement of Assets and Liabilities in Financial Statements* we suggested that it would be appropriate to set out more detailed requirements for specific measurement bases in standards.

Since then, the IASB has completed its rationalisation of approaches in IFRS and developed a standard for consistent application of fair value reporting in IFRS 13 *Fair Value Measurement*. Against this more stable backdrop IPSASB is better placed to consider how to provide standards and guidance which best supports the alignment between IFRS and IPSAS, having regard to issues around understandability, and minimising confusion due to overlaps in terminology. The approach proposed in the Consultation Paper is structurally similar to that taken in IFRS through the combination of its conceptual framework, IFRS 13, and standards on specific topics. CIPFA supports this approach.

Responses to the Preliminary Views and Specific Matters for Comment in the Consultation Paper are attached as an Annex.

These relate primarily to the content of a proposed IPSAS *Measurement*. However, in our comments on SMC 1, we reflect on other amendments which the Board will be progressing, including in the Conceptual Framework. We suggest it would be helpful to review the handling of Market Value, and to refer to and explain the concept of Value in Use. In our view Value in Use is a key concept affecting the valuation of many public sector assets, even where the final calculation is on a different (generally more objectively measurable) basis.

In general, CIPFA supports the proposals. However, we found it much more difficult to come to a view in respect of the proposals on borrowing costs. Unlike the majority of the proposals which are mainly rationalising or clarifying existing IPSAS, Preliminary View 7 is proposing a substantive change to extant IPSAS 5, *Borrowing Costs* by requiring that borrowing costs relating to qualifying assets are not capitalized. The core of the reasoning is that

- it is impractical to capitalize all borrowing costs
- there are also some assets whose construction is not funded by borrowing
- if a capitalization approach is taken for some assets, comparability issues arise both with those assets which are not funded by borrowing, and any assets where capitalization is not carried out

While we agree with the majority of this analysis, we are not fully convinced by the arguments to adopt Option 4 (and thus to prohibit the capitalization of borrowing costs) on the basis that this straightforwardly provides more useful information. In CIPFA's view there is a much more difficult balance of arguments for and against capitalization, and it may be more relevant to frame this discussion more explicitly in terms of practicality and cost-benefit issues.

We hope this is a helpful contribution to IPSASB's work in this area.

ANNEX

RESPONSES TO PRELIMINARY VIEWS AND SPECIFIC MATTERS FOR COMMENT

Preliminary View 1: the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance. **Preliminary View 2:** the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. **Preliminary View 3:** guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost– Application Guidance for Assets, to be complete. **Preliminary View 4:** fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete. **Preliminary View 5:** fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete. **Preliminary View 6:** replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.
CIPFA agrees with Preliminary Views 1 to 6. In particular, we agree: • that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance. • that this should be provided through application guidance for the most commonly used measurement bases which is generic in nature, with transaction specific measurement guidance being included in individual standards. We are also content with the approach to developing this guidance, and the specific proposals in Appendices A, B, C and D

Preliminary View 7

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

The IPSASB has identified four options for treatment of borrowing costs for a qualifying asset during the period between the start of acquisition/construction/production and active use. Each of these has advantages and disadvantages. In the commentary below we will focus mainly on Option 2 and Option 4.

CIPFA agrees with the reasoning in paragraph 3.20 that conceptually (and specifically having regard to the economic substance of transactions) the cost of creating, constructing or developing a usable asset should include all costs necessarily incurred in the creation/construction/development process. This may involve purchases of goods and services, related consumption of assets already owned by the entity, employee costs allocated to asset creation, and finance costs.

We would note that asset creation is generally conducted through a series of exchange transactions, each of which is designed to achieve equal or greater value for the entity. While there may be inefficiencies or waste, the overall effect should be to obtain an asset of commensurate value with the total cost, including finance costs.

In line with the above, CIPFA considers that (in contrast to Option 4) applying Option 2 to a qualifying asset in respect of which borrowing was incurred:

- more faithfully represents the cost of the asset
- is likely to better reflect the underlying operational capacity of the asset or its service potential
- is likely to provide a value which is more comparable to similar assets purchased from third parties, which implicitly include financing costs in the price.

CIPFA also agrees with paragraph 3.22 which explains that Option 2 potentially has disadvantages in terms of comparability between qualifying assets where attributable borrowing was incurred with assets with no attributable borrowing.

However, while we agree that this may lead to users incorrectly attributing greater operational capacity to asset measurements which include borrowing costs, we suggest that this is not because those assets are overvalued. The main implication is that the other assets are undervalued because no account has been taken of explicit or implicit costs of capital. Adopting Option 4 therefore means that total asset values are reduced, and are likely to become less aligned with economic substance.

CIPFA agrees that as a benefit of Option 4, greater comparability may be achieved between different assets constructed by the entity, and between different entities which have constructed assets. We would note however that this is somewhat balanced by

reduced comparability between assets which are constructed by the entity and assets which the entity purchases from third party constructors, and between entities which have different balances of self-constructed assets and purchased constructed assets.

CIPFA agrees that there may be public sector differences as set out in 3.24 in that borrowing is often centralised and funding is often not specifically allocated to specific assets, although we are by no means certain that the first of these issues is unique to the public sector.

In the light of the above factors, without consideration of other matters we would find it difficult to unreservedly support the views at 3.27 that allowing any form of capitalizing borrowing cost will diminish comparability, and that excluding borrowing costs from the cost of assets will provide more useful information. In CIPFA's view, the position is much more balanced:

- Option 2 is potentially problematic due to issues with arbitrariness, practicality and cost, and does raise some issues in connection with comparability.

- Option 4 seeks to maximise comparability (while not altogether avoiding comparability issues), but does so by reducing alignment with economic substance.

In seeking to resolve the above issues, it may be helpful to separately consider the issues having regard to the fact that preparers of public sector financial statements may already follow two different approaches to the balance between faithful representation and the other qualitative characteristics of useful information, and these approaches are both legitimately supported by the IPSAS canon.

- Approach 1 - adopting the revaluation model for subsequent measurement of assets, and more generally adopting current value bases which seek to maintain close alignment with economic substance.

- Approach 2 - adopting the cost model for subsequent measurement, reflecting on the practical and resource difficulties that may be faced in maintaining close alignment with economic substance, and the arbitrary factors that may be addressed if these cannot be resolved. While there is less emphasis on economic substance, the information produced still acts as a useful benchmark, and may in some ways be more objective and understandable.

Having regard to the above, it seems likely that the concerns we have expressed in connection with alignment with economic substance impact substantially on those following Approach 1. However, while this misalignment may be problematic for initial recognition at cost, we would note that the effect is temporary due to the application of the revaluation model.

By way of contrast, we suggest that those following Approach 2 and mainly applying the cost model have already accepted that over time there will be a degree of misalignment with economic substance, and the primary emphasis is on maintaining a workable benchmark.

Preliminary View 8

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Preliminary View 9

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, *Measurement* standard for all IPSAS.

Preliminary View 10

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- Excluded in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Preliminary View 11

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

CIPFA agrees with Preliminary views 8 to 11.

The definition is appropriate, and we support addressing the treatment in the overarching measurement standard.

We agree with the treatments for the valuation bases, which are consistent with the rationale underlying the use of each basis when entering or exiting a transaction.

Specific Matter for Comment 1

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

CIPFA agrees that the list of definitions proposed for the IPSAS *Measurement* is exhaustive.

However, having regard to further amendments which the Board will be progressing, including in the Measurement chapter in the Conceptual Framework it would be appropriate to review the handling of Market Value, and to refer to and explain the concept of Value in Use (ViU).

We note that that the CP proposals align IPSAS fair value with fair value in IFRS, and so reflect exit based market value with no confusion over terminology. The proposals in respect of replacement cost also incorporate consideration of entry based market value where this is appropriate. It may therefore no longer be necessary for the Conceptual Framework to include a Market Value basis which encompasses both exit and entry values.

Value in Use seeks to capture the (present) value of an asset to the entity in terms of the benefits it will gain from using the asset. This seems particularly relevant for financial reporting on public sector assets, where the distinguishing features of measurement are grounded in the use of assets to provide public services rather than for cash generating purposes. This basis is not used for general purpose measurement because it is relatively difficult to operationalise, both for cash generating assets and non-cash generating assets. However, it remains important conceptually, even though it is only used in standards as part of impairment testing.

Specific Matter for Comment 2

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

CIPFA agrees that a review of the relevance of these measurement bases should be considered.

Specific Matter for Comment 3 Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including: - The Conceptual Framework Measurement Objective; - Reducing unnecessary differences with GFS; - Reducing unnecessary differences with IFRS Standards; and - Improving consistency across IPSAS.
CIPFA agrees that Diagrams 4.1 and 4.2 provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS.



The Japanese Institute of
Certified Public Accountants
4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan
Phone: +81-3-3515-1129 Fax: +81-3-3515-1167
Email: hieirikaikei@jicpa.or.jp

October 4, 2019

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

Comments on Consultation Paper "Measurement"

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (hereafter "JICPA") highly respects the International Public Sector Accounting Standards Board (hereafter "IPSASB") for its continuous effort to serve the public interest. We are also pleased to comment on the Consultation Paper "Measurement" (hereafter "CP"). Our comments to CP are as follows.

Introduction

We agree with the development of application guidance on measurement bases common to all the IPSAS standards, as mentioned in Chapter 2 of this CP. We believe that the development of such application guidance would help users more fully understand the general measurement bases applied in the public sector and would also reduce the inconsistencies in applying the IPSAS standards. We also believe that the IPSASB should provide clearer and more detailed explanations in developing an exposure draft (hereafter "ED") going forward. Certain improvements are required to the description of the measurement basis for historical cost included in the current proposed application guidance. Several terms should be added to the list of definitions. Please see the individual comments below for further detail.

We do not support the proposal that borrowing costs be accounted for as expenses in all cases in chapter 3 of the CP. As a result of considering government accounting practices in Japan and consistency between those accounting treatment in IFRS, we believe that an entity should be allowed to elect to expense or capitalize some borrowing costs. For the transaction costs, as described in Chapter 3, we believe that it is more practical to apply the "initial measurement" and "subsequent measurement", which reflects the transaction costs at the commencement date of transaction and reporting date, rather than the measurement of transaction costs when commencing and exiting the transaction.

The flow chart in Chapter 4 of the CP would be useful. In addition to the chart, we propose that the IPSASB should develop a figure to help readers better understand the election of measurement bases on initial measurement.

The "Introduction" and "Illustrative ED" that the IPSASB has recently attempted to develop provide useful reference to us in our discussions of the issues contained in the CP. When the IPSASB develops CPs going forward, we encourage the Board to consider using a format like that of the CP.

Preliminary View 1—Chapter 2

The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Comment:

We agree. But we think the IPSASB should consider following points.

1. Figure 2.1 on the measurement bases used in the existing IPSAS seems to represent only part of the IPSASs that clearly refer to the measurement bases. As such figures would be helpful for constituents, these should also be included in an ED.

   We think the figure should include the whole suite of relevant IPSASs including the IPSASs that refer to the measurement bases only implicitly.

   IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, for example, is only identified as a standard prescribing the fulfillment value. It would not be persuasive that a measurement basis with only one description as a representative measurement basis and link it to the development of an application guidance. Under IPSAS 39 *Employee Benefits* or IPSAS 42 *Social Benefits*, a relatively vast amount of liabilities would be recognized in financial statements. However, we cannot find any description of these IPSASs in the figure 2.1, and it does not necessarily reflect the practical materiality of the line items.

2. The CP proposes the development of an application guidance only for the fulfillment value among five measurement bases described in the Conceptual Framework. Reading the descriptions in BC10 and BC 11, we cannot clearly identify how the IPSASB has determined that the needs of four measurement bases, including the fulfillment value, are high and the descriptions in the BCs seem to be insufficient. Descriptions in the BCs should be detailed, like the descriptions in the Project Overview of the CP.

3. We think that the BCs of the illustrative ED should clearly explain why some of the measurement bases in the Conceptual Framework were excluded from the CP.

4. The illustrative ED does not divide the chapter on measurement into separate sections for the initial measurement and subsequent measurement. In practice, the initial measurement and subsequent measurement are clearly distinct, and the measurement bases applied may differ. We recommend that the ED include separate sections covering the initial measurements and subsequent measurements.

Preliminary View 2—Chapter 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

Comment:

We agree. But see our Comment 4 concerning PV1.

Preliminary View 3—Chapter 2

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Comment:

We do not agree. We believe that improvements are needed on the following issues.

1. Paragraphs C12 to C13 and C15 to C17 all address the issues of incidental costs. A single requirement for them should be developed. C12(b), for example, refers to specific examples related to costs incidental to purchase. C15 includes an example of the costs that should be included in consideration attributable to purchase and/or development (that is, incidental costs). The descriptions are redundant.

2. C16 states that costs are excluded from the consideration (they are not incidental costs) if they:
   (a) are not directly incidental to the asset's acquisition and/or development; or
   (b) do not contribute to the ability to create the asset's service potential and/or future economic benefits.

   This may imply that an incidental cost can be excluded only if condition (b) is met. The reference to (a) should be retained, but (b) only relates to the introduction of examples. Condition (b), accordingly, is not a criterion independently applicable, and should be moved to

C17.

Thus, C16 should thus be revised as follows:

C16. Costs not directly incidental to the asset's acquisition and/or development are excluded from the consideration that forms a part of an asset's historical cost.

Preliminary View 4—Chapter 2

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Comment:

We agree but recommend that the following clarification be added.

1. A6 of Appendix A of the CP states that "A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions". An asset or liability "exchanged in an orderly transaction between market participants" could be interpreted to exclude non-exchange transactions. Non-exchange transactions are quite common in the public sector. As described in Paragraph 27 of IPSAS 16 *Property, Equipment and Plant*, non-exchange transactions are commonly entered in the public sector and must be measured at fair value. Therefore, we propose that the IPSASB should clarify that the requirements concerning fair value include "non-exchange transactions."

2. To help constituents consider the preliminary view, we request that the ED include a cross reference to the requirements of IFRS 13 that are relevant, in addition to AG. The Basis for Conclusion should clarify why the requirements in Paragraphs 34 to 56 and Paragraphs 70 to 71 were excluded.

Preliminary View 5—Chapter 2

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Comment:

We agree with the IPSASB's Preliminary View.

Preliminary View 6—Chapter 2

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Comment:

We agree with the IPSASB's Preliminary View.

Specific Matter for Comment 1—Chapter 2

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED. Do you agree that the list of definitions is exhaustive? If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Comment:

We do not agree.

The measurement bases for market value are described in the definitions of terms presented in Paragraph 6 of the ED. BC9 includes explanations of the cost of release and the assumption price which are excluded from the application guidance of this standard. We therefore believe that they should be added to the definitions.

Specific Matter for Comment 2—Chapter 3

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct? Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

Comment:

We agree with the IPSASB's Preliminary View.

Preliminary View 7—Chapter 3

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. Do you agree with the IPSASB's Preliminary View? If not, please state which option you support and provide your reasons for supporting that option.

Comment:

We do not agree. We support Option 3.

The CP objects to the capitalization of borrowing costs of a public sector entity, mainly because such borrowing costs cannot be clearly tied to a qualifying asset (due to the nature of the asset) and an allocation would therefore be arbitrary. As indicated in CP 3.13, however, borrowing costs could be attributed to qualifying assets in a good number of cases.

In Japan, local public enterprises (one of the departments of municipalities and operate water supply business) apply private sector accounting. As far as the local public enterprises, each individual borrowing can be tied to a relevant qualifying asset. In the accounting practices adopted by some Independent Administrative Corporations controlled by the Japanese national government, interests on borrowings during construction are included in the historical cost of qualifying asset during the construction of infrastructure assets funded by the borrowings. We therefore cannot accept a treatment that automatically accounts for borrowing costs as expenses.

The IFRS states that the cost of assets should include all the costs incurred until the asset is ready for its intended use. This means that the borrowing costs are also included in the cost. The CP does not seem to clearly deny this concept of the IFRS.

The CP denies capitalizing borrowing costs because diminishing comparability and consistency of GFS. We consider that reason is not robust.

Preliminary View 8—Chapter 3

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

> **Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Comment:

We agree with the IPSASB's Preliminary View.

Preliminary View 9—Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Comment:

We agree with the IPSASB's Preliminary View.

Preliminary View 10—Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Preliminary View 11—Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Comment:

We do not agree.

Transaction costs would be more readily understood if initial measurement and subsequent measurement are adopted, rather than measurement of transaction costs reflecting the timing of occurrence of transactions (when commencing and exiting the transactions). The initial measurement and subsequent measurement would also be more consistent with the timing of the accounting treatment in practice. It would be more useful to clearly describe the relationship between each measurement basis and transaction cost by developing illustrative examples. One of concerns is that with only the descriptions in the proposed ED provided, a journal entry including a transaction cost in a fulfillment value could potentially give rise to diversity in accounting practices.

Costs related to asset retirement obligations are incremental costs that are directly attributable to the acquisition of assets and would not be incurred if the entity had not acquired the asset. These costs could be transaction costs, as described in the CP.

IPSAS 17. 30(c) (cost relating to asset retirement obligations) states that, "the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period." Under the current IPSAS, the asset retirement obligations are effectively determined to be an element of historical cost. This would be inconsistent with this Preliminary View, which excludes transaction costs incurred in existing transaction from the historical cost.

Specific Matter for Comment 3—Chapter 4

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective; - Reducing unnecessary differences with GFS; - Reducing unnecessary differences with IFRS Standards; and - Improving consistency across IPSAS. If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

Comment:

We agree, provided that the following issues should be further considered.

1. Flow chart would significantly be changed depending on the conclusions reached on fair value and market value in PV4.
2. The proposed measurement flow chart mainly discusses the subsequent measurement. In some cases, a relevant measurement basis must be determined for an initial measurement. We propose that the IPSASB should develop a flow chart for the initial measurement in the CP to summarize and confirm the discussions of the initial measurement.

Other comments

BC18 of the proposed ED excludes the measurement of items held for sale from the scope of the proposed ED, noting that consistent with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, the issues relating to the measurement of items held for sale are like issues relating to the measurement of impaired assets.

The issues relating to the measurement of impaired assets are excluded from the measurement project, as Figure 2.1, Note 14 of the CP notes that the project should include guidance on generic measurement issues and the detailed guidance on the use of value-in-use is included in the impairment standard.

If no IPSAS corresponding to IFRS 5 exists, we are not of the view that the issues addressed in the Illustrative ED are “similar to issues relating to the measurement of impaired assets.”. While IFRS 5 is IPSASB’s potential project to ensure consistency between the IPSAS and IFRS, it is not regarded as a priority project. We think the IPSAB should clarify the reasons and background on this issue in BCs.

Yours sincerely,

Hiroshi Shiina
Executive Board Member - Public Sector Accounting and Audit Practice
The Japanese Institute of Certified Public Accountants

10 October 2019

Mr. Ian Carruthers
International Public Sector Accounting Standards Board
529 Fifth Avenue,
New York, NY 10017
USA

Submitted electronically through the IPSASB website

Dear Mr Carruthers,

ICAEW REPRESENTATION 111/19, ED 68 IMPROVEMENTS TO IPSAS, 2019

ICAEW welcomes the opportunity to comment on ED 68 *Improvements to IPSAS, 2019*.

We note that the IPSASB improvements project deals with non-substantive changes to IPSASs through a collection of amendments. In previous years, the amendments were presented in two parts: Part I was driven by stakeholder feedback, and Part II covered amendments identified through consideration of the annual improvements and narrow scope amendment projects of the IASB.

The 2019 improvements do not include any IPSAS updates to ensure alignment with IFRS. The IPSASB is reluctant to update its suite of standards following an update to the definition of materiality by IASB. This is because it wishes to review the guidance in its Conceptual Framework (CF) before making standards-level amendments. In our view the accounting standards should take precedence over the CF – it is the standards that drive practice (the CF is useful for underpinning principles). Remaining aligned with IFRS as much as possible is of fundamental importance.

We agree that IPSASB needs to consider carefully whether to update the definition of an operation following IASB's update of the definition of a business. The fact that updating the definition of operation is likely to be a substantive change, and thus not in the remit of an improvement project, should serve as a reminder to only deviate from IFRS if absolutely necessary. Changing definitions and usages of terms can have unintended consequences and may result in difficulties in future updates.

We agree with the proposed changes to IPSASs in the ED, but would like to reiterate the importance of maintaining IFRS convergence which is, after all, a key theme in IPSASB's strategy and work programme 2019-2023.

The Institute of Chartered Accountants in England and Wales
Chartered Accountants' Hall
Moorgate Place
London
EC2R 6EA UK

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX 877 London/City
icaew.com

Yours sincerely



Dr Nigel Sleigh Johnson
Head of Financial Reporting, Audit and Insurance

Nigel.Sleigh-Johnson@icaew.com

ICAEW
REPRESENTATION 110/19

MEASUREMENT

Issued 11 October 2019

ICAEW welcomes the opportunity to comment on *Measurement* published by the International Public Sector Accounting Standards Board (IPSASB) in April 2019, a copy of which is available from this link.

We broadly support IPSASB's proposal for an accounting standard on measurement which aims to provide generic guidance related to different measurement bases in one standard. We believe IPSASB could have approached this project differently by aligning with IFRS 13 *Fair Value Measurement* and to then consider providing additional guidance for commonly used public sector measurement bases such as depreciated replacement costs.

This response of 11 October 2019 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee and Public Sector Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2019
All rights reserved.
This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:
• it is appropriately attributed, replicated accurately and is not used in a misleading context;
• the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.
Where third-party copyright material has been identified application for permission must be made to the copyright holder.
For more information, please contact: frf@icaew.com

ICAEW Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)20 7920 8100 **icaew.com**

KEY POINTS

SUPPORT FOR FURTHER GUIDANCE ON MEASUREMENT

1. We broadly support IPSASB's proposal for an accounting standard on measurement which aims to provide generic guidance on different measurement bases in one standard.
2. We believe IPSASB should have approached this project differently: by aligning with IFRS 13 *Fair Value Measurement* and then providing additional guidance for commonly used public sector measurement bases such as depreciated replacement cost. We question to what extent IPSASB are proposing to deviate from IFRS 13 and challenge the need for guidance if the deviations are minor.

STRUCTURE OF THE CONSULTATION

3. We note that incorporating an Exposure Draft (ED) in the Consultation Paper (CP) has increased the complexity of the paper. Whilst we can appreciate why this was done, re-exposure of the ED will be inevitable, causing more work for both IPSASB and stakeholders. Having an illustrative ED helps visualise the consequences of the CP, which is helpful, but IPSASB will need to weigh up the benefits against the costs on a case by case basis.
4. It is not obvious to what extent the illustrative ED is final in its design but we urge that the structure be changed to bring the majority of the content in the appendices, which is derived from IFRS 13, into the main standard. In our experience users of accounting standards will naturally give more weighting to the core standard rather than appendices. Prominence of position is important for this type of material.

INTERACTION BETWEEN THE CONCEPTUAL FRAMEWORK AND THE STANDARDS

5. The relationship between a potential standard on measurement and the Conceptual Framework (CF) comes across as muddled in this consultation. This is illustrated by the table on page 16 which shows that three of the eight measurement bases in the CF are not used in the standards at all. It also shows that fair value is used extensively in the standards yet does not feature in the CF. We believe that updates to standards should not be held back because it may render the CF out of date/inconsistent. In our view the accounting standards should take precedence over the CF – it is the standards that drive practice, and whilst the CF is useful for underpinning principles, it is not a priority for users of the accounts.
6. We know that a limited-scope review of the CF is planned. In our view this ought to address the current mismatch between measurement bases at the standards level and in the CF. We strongly encourage IPSASB to conclude which measurement bases should be used in the public sector and ensure logical linkages with the CF.

BORROWING COSTS

7. In our opinion, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset and as such including them in that cost can provide the most suitable valuation in those circumstances.
8. On the other hand, whilst we think that some public sector specific arguments put forward in the CP are also relevant to the private sector (albeit not as significant an issue as is implied in the CP), we appreciate the simplicity of expensing all borrowing costs. We also appreciate that at certain levels of government the allocation of borrowing costs will be challenging, but less so at other levels, such as local government and Government Business Enterprises.
9. We therefore prefer to keep the existing accounting policy options in IPSAS 5 *Borrowing Costs* which has a benchmark treatment to expense borrowing costs but allow for an alternative treatment to capitalise them in certain circumstances.

TRANSACTION COSTS

10. The illustrative ED included in the CP has provided guidance regarding transaction costs using exit and entry-based measurement bases and whether transactions are entity or

© ICAEW 2019

market specific. We believe that this particular way of looking at whether transaction costs should be included or not may not be easily understood by all users of the standards. We therefore recommend that IPSASB improve the sign-posting of how transaction costs are dealt with under each measurement basis in the detailed application guidance.

ANSWERS TO PRELIMINARY VIEWS AND SPECIFIC MATTER FOR COMMENT

Preliminary View 1

The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why?

11. We welcome the overdue alignment between IFRS 13 and IPSAS given the extensive application of fair value across IPSAS. We therefore support the introduction of an IPSAS equivalent to IFRS 13 and agree that users of IPSAS would benefit by having additional guidance on those measurement bases commonly used in the public sector. Any divergence from IFRS 13 should be clearly signposted and explained in the Basis for Conclusions. On that basis we agree with PV 1.
12. The current linkages between the standards and the CF regarding measurement are muddled and strongly encourage IPSASB to concluded which measurement bases should be applicable in the public sector. The table on page 16 details the usage of all measurement bases in existing IPSAS and shows that IPSASB need to clarify the measurements bases applicable in the standards and the links to the CF.

Preliminary View 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

13. We agree with the Preliminary View (PV) that the application guidance on the *Measurement* standard should be generic in nature, with transaction-specific measurement guidance being included in the relevant individual accounting standards.
14. We support IPSASB's decision to publish a separate Standard on measurement since, in our view, one of the key benefits of a future measurement standard will be alignment to IFRS 13. However, we do not agree with the current structure of the illustrative ED. The order in which content is presented in accounting standards matters with more weight being placed on the core standard rather than an appendix. For example regarding Appendix A, it currently contains both the core text as well as the application guidance of IFRS 13. We believe that the appendices should only contain application guidance and that any core text should be moved to the main standard.

© ICAEW 2019

Preliminary View 3

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost – Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

15. We agree with the PV and Appendix C: Historical Cost – Application Guidance appears to be complete.
16. We note that paragraph C13 is derived from IASB's CF BC6.32 and BC6.33. Given that C13 is only part of an illustrative ED, we will not propose drafting changes in this response but instead voice our concerns that IASB's Basis for Conclusions have been turned into an integral part the illustrative ED. Basis for Conclusions are not integral to standards and IPSASB should be referring to the core body of IASB's literature for use in their standards.

Preliminary View 4

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value – Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

17. We agree that fair value guidance should be aligned, as far as possible, with that contained in IFRS 13. We found the Addendum C very useful to gain assurances that IFRS 13 had been mapped across where possible. Where alignment with IFRS is a key priority, having such a mapping on a paragraph by paragraph basis is really helpful and reassuring.
18. In line with the point made above, IPSASB could consider signposting the source of the guidance as coming directly from IFRS 13 in the final standard. This would help put the fair value concept into context for those not familiar with private sector accounting standards, as well as underlining the importance of consistency between public and private sector accounting standards.
19. We recommend that more application guidance is provided in relation to highest and best use for non-financial assets (A18 to A21). We believe that paragraph A21 over-simplifies the fact that in the public sector there will be hard and soft restrictions in place that will prevent some entities from accessing the highest and best market. Example of a hard restriction could be legislation or a restrictive covenant over an asset, whilst a soft restriction could be the need to deliver public services in a particular geographic location which requires assets to be owned in those locations.
20. We agree, subject to the above paragraph, that Appendix A: Fair Value – Application Guidance appears to be complete.

Preliminary View 5

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value – Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

© ICAEW 2019

If not, please provide your reasons, stating clearly what you consider needs to be changed.

21. We agree that guidance should be based on the concepts developed in IPSASB's Conceptual Framework. *Appendix B: Fulfilment Value – Application Guidance* appears to be complete.
22. Paragraph B18 explains how transaction costs are accounted for but we believe it would be more useful to have transaction costs as a specific heading in each of the measurement bases? Appendix D has done this (D27) but none of the other appendices have, so at a minimum there is a consistency issue that should be reviewed.
23. We do not think the application of entity-specific values is well explained in paragraphs B14 and B15, in particular the relationship between market and entity based assumptions. For example, in paragraph B13, it states that the assumptions on the time value of money and risk premium are entity specific. Then paragraphs B14 and B15 say that the estimates should be market based and that the entity specific estimate should be the same as a market participant's estimate. B14 contains some typographical errors that need to be rectified.
24. Paragraphs B13 to B15 refer to risk premiums that an entity needs to estimate and it may be helpful to signpost that further explanations and examples are provided in Appendix A.

Preliminary View 6

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost – Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

25. We agree that guidance on replacement cost should be based on the concepts developed in the Conceptual Framework. We agree that *Appendix D: Replacement Cost -– Application Guidance* appears to be complete.

Preliminary View 7

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

26. We believe that the public sector specific arguments put forward to mandate the expensing of borrowing costs are somewhat exaggerated but we appreciate the simplicity of the approach. However, the goal of the measurement standard should be to assist in obtaining the most suitable valuation of an asset, which could include borrowing costs.
27. In our opinion, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset. We also appreciate that at certain levels of government the allocation of borrowing costs will be more challenging whilst at other levels, such as local government and Government Business Enterprises, less so.
28. On balance, we would therefore prefer the capitalisation of borrowing costs be allowed as an accounting policy choice as is currently the case in IPSAS 5. We believe that deviating from IFRS in order to simplify the accounting for borrowing costs in the public sector is a valid reason.

© ICAEW 2019

Preliminary View 8

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

29. We support the creation of a single definition of transaction costs that can be applied to all IPSASs. We note the two different definitions found in IASB's literature are shown on page 28 and agree with updating the IFRS 9 definition as shown in PV 8.

Preliminary View 9

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS Measurement standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

30. We agree with PV 9 that transaction costs should be addressed in a single location.

Preliminary View 10

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- ***Excluded in the valuation of liabilities measured at fulfilment value;***
- ***Excluded from the valuation of assets and liabilities measured at fair value; and***
- ***Included in the valuation of assets measured at historical cost and replacement cost.***

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

31. See our response to PV 11 below.

Preliminary View 11

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- ***Included in the valuation of liabilities measured at fulfilment value;***
- ***Excluded from the valuation of assets and liabilities measured at fair value; and***
- ***Excluded in the valuation of assets measured at historical cost and replacement cost.***

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

© ICAEW 2019

32. We believe that the IPSASB has come to the right conclusion as to when transaction costs should be included and excluded for both entering and exiting a transaction.

33. The illustrative ED makes it clear whether a particular measurement basis is entry or exit based and whether it is entity specific or not. The section covering transactions costs on page 50, in particular paragraphs 27 and 28, use this terminology to describe when transaction costs are included and when not. We challenge how easily this will be understood by account preparers who will not be used to thinking about transactions in those terms. For example, the last sentence in paragraph 28 says that transaction costs incurred in exiting a transaction are included in exit-based measurement bases when the measurement basis is entity specific. This is difficult to grasp.

34. As already mentioned in paragraph 22 above, it would help if the detailed application guidance would clearly signpost how transaction costs should be applied for each measurement bases. Currently, only appendix D has transaction costs as a heading. Furthermore, we recommend that IPSASB include a table that clearly shows whether transactions costs are included or not for each measurement bases.

Specific Matter for Comment 1

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

35. The illustrative ED contains all relevant definitions from IFRS 13 plus a few additional ones specific to the standard; we do not have any additional definitions to add.

Specific Matter for Comment 2

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

36. With limited experience of IVS and GFS, we do not have a view on whether IPSASB's conclusion is correct on the apparent similarities in measurement between IPSAS and these other standards.

37. With regards to Equitable Value and Synergistic Value, IPSASB have to be sure about the benefits of using either basis over those already listed in the Conceptual Framework, especially given that some existing measurement bases are not currently used by the standards. In other words, IPSASB should not be adding more measurement bases if these are not going to be used.

Specific Matter for Comment 3

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- ***The Conceptual Framework Measurement Objective;***

© ICAEW 2019

- ***Reducing unnecessary differences with GFS;***
- ***Reducing unnecessary differences with IFRS Standards; and***
- ***Improving consistency across IPSAS.***

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

38. We agree that the measurement flow charts provide a helpful starting point for the IPSASB when reviewing measurement requirements in existing IPSAS and in developing new IPSAS.

39. In respect of Diagram 4.1 (page 38), we believe that the choice of whether to use current or historical values is an important, and often complex, decision. We support the provision of additional guidance to help entities in making the decision on whether to adopt a historical cost approach or a revaluation approach. Listing out the high level pros and cons of each would be helpful, for example.

© ICAEW 2019

14 October 2019

Ian Carruthers
The Chair
International Public Sector Accounting Standards Board
529 5th Avenue
New York 10017

Submission via IPSASB website

Dear Ian

Consultation Paper: Measurement

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) and CPA Australia thank you for the opportunity to comment on the IPSASB's Consultation Paper: Measurement. Our responses to the specific matters for comment raised in the Consultation Paper follow in the **Appendix** to this letter.

Some of the outcomes from this project could be beneficial for both public sector and private sector not-for-profit reporting. For instance, the concept of a market participant for many public sector assets can be challenging, and attempting to arrive at hypothetical market participants when there are none is an issue. Some of our constituents believe that moving to an entry-based approach rather than an exit-based approach would be helpful in the public sector, but this would result in a divergence from IFRS 13 *Fair Value Measurement*. In Australia, which adopts IFRS 13 (through AASB 13 *Fair Value Measurement)* a need for further guidance on applying replacement cost has arisen, and the Australian Accounting Standards Board (AASB) is conducting a project to develop further guidance to assist with applying the fair value requirements in AASB 13 (IFRS 13) in the public sector.

Whilst we believe there are some benefits that could arise from this project as articulated above, based on the Consultation Paper alone, it is unclear what the problem is that the IPSASB is trying to solve. We are not convinced that the proposals set out a sufficiently robust case for why a general measurement standard is needed.

We note that the Illustrative Exposure Draft Appendices A to D include as application guidance, extracted material from International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). In many cases such material relates to specific

CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Appendix

Preliminary view 1

The IPSASB's preliminary view is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance. Do you agree with the IPSASB's preliminary view? If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

We are not convinced that there is a compelling need for guidance on historical cost measurement, but we agree that there is a need for more guidance on replacement cost and fair value measurement in the public sector.

We note that fair value has not been identified in the Conceptual Framework as a measurement basis, yet it is considered as a measurement basis in this consultation. Therefore, this proposal appears to propose a conceptual change in considering fair value as a measurement basis, which would be more appropriately addressed through a review of the Conceptual Framework.

The current guidance provided by IFRS 13 insufficiently addresses issues the public sector is facing. If the IPSASB intends to use the guidance in IFRS 13 for non-financial assets, the Board will need to provide additional specific guidance for public sector entities to apply the principles. As stated in the cover letter, the Australian Accounting Standards Board (AASB) is currently working on a project to address issues raised by public sector constituents regarding the application of AASB 13 *Fair Value Measurement* by public sector entities.

Preliminary view 2

The IPSASB's preliminary view is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. Do you agree with the IPSASB's preliminary view? If not, please provide your reasons, and state what guidance should be included, and why.

As stated in the cover letter, we do not believe the Consultation Paper makes a clear case for why one measurement standard is necessary. Although one consolidated standard on measurement might appear appropriate on initial consideration, we have the following concerns with the proposed approach:

- It appears that the Illustrative ED is proposing changes to principles contained in the Conceptual Framework. As mentioned in our response to the IPSASB's preliminary view 1 above, we believe this would require a review of the Conceptual Framework. Furthermore, the concepts in the Conceptual Framework form the basis upon which IPSAS are developed and therefore it is inappropriate to use such concepts directly, as proposed, within the application guidance included as part of the illustrative ED.

CHARTERED ACCOUNTANTS AUSTRALIA + NEW ZEALAND

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

- We are unsure what the gaps in IPSAS are that the IPSASB is attempting to address. Specific concerns in the public sector have not been highlighted suggesting the need for solutions proposed in the Illustrative ED.
- there are potential conflicts with the principles in the Conceptual Framework.
- It potentially adds unnecessary clutter which may obscure existing guidance.

Preliminary view 4

The IPSASB's preliminary view is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value – Application Guidance, to be complete. Do you agree with the IPSASB's preliminary view? If not, please provide your reasons, stating clearly what you consider needs to be changed.

We agree that, as far as the term "fair value" is intended to mean the same as it does in IFRS 13, the guidance should be aligned taking into account considerations specific to the public sector. If the IPSASB decides to align the fair value guidance with IFRS 13, there is a need to include additional guidance on how to apply these principles in the public sector. This is particularly relevant given that the Australian public sector has experienced a number of issues applying the concepts in IFRS 13 through the local equivalent standard AASB 13. We do not have any comment on whether Appendix A is complete. However, we have similar concerns on its appropriateness as set out in our response to the IPSASB's preliminary view 3 above.

We encourage the IPSASB to consider the AASB's fair value measurement in the public sector project which may inform the IPSASB's deliberations as the AASB is addressing specific issues raised by public sector constituents.

Preliminary view 5

The IPSASB's preliminary view is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value – Application Guidance, to be complete. Do you agree with the IPSASB's preliminary view? If not, please provide your reasons, stating clearly what you consider needs to be changed.

We do not have any comment on whether Appendix B is complete. However, we have similar concerns on its appropriateness as set out in our response to the IPSASB's preliminary view 3 above.

Most notably, we do not agree with the proposal to switch from *cost of fulfilment* to *fulfilment value*, as it is more than just a change in terminology. For example, the Illustrative ED proposes that *fulfilment value* should include a risk premium (also referred to as a risk adjustment). Although the IPSASB Conceptual Framework is silent on this matter, the Basis for Conclusions

IPSASB's preliminary view? If not, please state which option you support and provide your reasons for supporting that option.

We are not persuaded by the arguments presented to eliminate the option to capitalise certain borrowing costs. Whilst we understand it is common practice to expense borrowing costs, we support retaining the accounting policy choice to capitalise or expense. We believe it is possible to directly attribute borrowing costs to specific projects, particularly in the case of large infrastructure assets. Simply removing the option to capitalise is not a pragmatic solution to actually addressing the difficulties some entities encounter in practice. Also, it does not address the issue of what costs should be included in assets measured at fair value using the cost approach, or what costs should be included in a replacement cost measurement.

Preliminary view 8

The IPSASB's preliminary view is that transaction costs in the public sector should be defined as follows: "Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability." Do you agree with the IPSASB's preliminary view? If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

We are not aware of any issues with the extant definition. However, if these changes are to be proposed in a later exposure draft, we suggest providing guidance and examples to provide further clarity to the terms "directly attributable" and "would not have been incurred."

Preliminary view 9

The IPSASB's preliminary view is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS. Do you agree with the IPSASB's preliminary view? If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

If there were to be a measurement standard with generic measurement guidance, then it would not be unusual to have proposed guidance on transaction costs connected with the measurement bases it covers.

Preliminary view 10

The IPSASB's preliminary view is that transaction costs incurred when entering a transaction should be:

- **Excluded in the valuation of liabilities measured at fulfillment value;**
- **Excluded from the valuation of assets and liabilities measured at fair value; and**

- Orderly transaction and arm's length transaction;
- Historical cost and amortised cost; and
- Market value of a liability and amortised cost of a liability (the market value of a liability definition does not take into account traded/exchanged liabilities).

Specific matter for comment 2

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct? Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of equitable value and synergistic value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

No comment.

Specific matter for comment 3

Do you agree that the measurement flow charts (diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS acknowledging that other matters need to be considered, including:

- **The Conceptual Framework measurement objective;**
- **Reducing unnecessary differences with GFS;**
- **Reducing unnecessary differences with IFRS; and**
- **Improving consistency across IPSAS.**

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

While we acknowledge the intention of Diagrams 4.1 and 4.2 to visualise the measurement of assets and liabilities in the form of an illustrative flow chart, we are concerned about the understandability of the flow charts given that certain "pathways" visualised through arrows do not clearly point in a particular direction (see copy of Diagram 4.1 below; red and green boxes).

With regards to the red box, we are concerned about the "intersection" of illustrated arrows. Paragraph 4.15 (b) (p. 40), states that "[w]hen replacement cost does not faithfully represent the economic substance of the transaction, the current value of the asset is derived using another measurement basis." However, the current illustration of the arrows does not clarify that the consideration of alternative measurement bases is a consequence of replacement cost not

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
Flughafenstraße 61
70629 Stuttgart
Postfach 23 02 20
70622 Stuttgart

Thomas Müller-Marqués Berger
Phone +49 711 9881 15844
Fax +49 181 3943 15844
thomas.mueller-marques.berger@de.ey.com
www.de.ey.com

Ian Carruthers
Chairman
International Public Sector Accounting Standards
Board
International Federation of Accountants

Submitted via website

14 October 2019

Comments to IPSASB's Consultation Paper "Measurement"

Dear Mr. Carruthers,

We are pleased to respond to the IPSASB's Consultation Paper "Measurement".

We observe that in many jurisdictions, and especially in the European context, there is an ongoing discussion on suitable guidance for measurement. In this context, it is often discussed whether there would be one single best measurement bases for the valuation of assets and liabilities in the public sector. Following the accountability perspective of public sector accounting, it is argued that in case of a single measurement model, the historical cost approach would be best suitable to fulfil the information needs of users. Against the background of these discussions we would encourage the IPSASB to explain the rationale for its mixed measurement approach to constituents.

Generally, we appreciate the IPSASB's far-reaching approach on how to deal with measurement guidance in its literature. The only concern that we have is that such an approach might create a three level-guidance-system (i.e. measurement guidance within IPSASB's Conceptual Framework, guidance within the Measurement standard and guidance at standards level). This might lead to confusion for constituents and might need further explanation. For the Board itself it might be difficult to maintain consistency between the three levels. However, we share IPSASB's view that the application of measurement bases should be covered in a Measurement standard while the other standards would be updated to merely indicate which specific measurement basis to apply for a specific transaction/item. To ensure consistency, a comprehensive review of all standards seems necessary. IPSASB's current Measurement project as well as the Limited Scope Review of IPSASB's Conceptual Framework seem to be suitable means to achieve that goal.

Independent Member of Ernst & Young Global Limited
Chairman of the Board: WP/StB Georg Graf Waldersee - Board of Management: WP/StB Hubert Barth, Chairman
RA/StB Dr. Henrik Ahlers - Constantin M. Gall - WP/StB Alexander Kron - WP/StB Mathieu Meyer
CPA Julie Linn Teigland - WP/StB Claus-Peter Wagner - WP/StB Prof. Dr. Peter Wollmert
Registered Office : Stuttgart - Legal Form: GmbH - Amtsgericht Stuttgart HRB 730277 - VAT: DE 147799609

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

14 October 2019

The approach proposed by the IPSASB in the CP/ED, implies centralizing the guidance on measurement in a standard. This leads in our view to the question whether guidance on notes disclosures re. measurement should be centralized as well. In our view, the disclosure on specific transactions can still be dealt with in specific standards, but some disclosures are linked to measurement bases e.g. fair value (sensitivity, source). These disclosures can be a standard set of requirements that should be applied uniformly for a particular measurement basis and could be subject to such centralized guidance on measurement-related notes disclosures.

For our detailed responses, please see the Annex.

Please do not hesitate to contact Thomas Müller-Marqués Berger or Dr. Jens Heiling in case of any additional questions or remarks.

Sincerely,

Thomas Müller-Marqués Berger
Partner

ppa. Dr. Jens Heiling
Senior Manager

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Annex – detailed responses

Preliminary View 1 – Chapter 2 (following paragraph 2.6):
The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

We agree that fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance. A Standard on Measurement is an innovative approach to realize that.

Given the fact that IPSASB's Conceptual Framework defines "net selling price" and IPSAS 12 defines "net realizable value" for the measurement of inventories we suggest

a) To use the measurement project to provide consistency between those two definitions;
b) To provide application guidance for "net selling price/net realizable value".

In that context, we would suggest to review IPSAS 12 for the measurement of inventories held for service delivery.

Preliminary View 2 – Chapter 2 (following paragraph 2.6):
The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

We agree with the IPSASB that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. We consider having an IPSAS on Measurement as a suitable and innovative approach. As outlined earlier, we suggest extending the generic application guidance to "net selling price/net realizable value". We also agree that transaction specific measurement guidance shall be included in the individual standards providing accounting requirements and guidance for assets and liabilities. In our view it might be helpful to clarify to users what is meant by "transaction specific measurement guidance".

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Preliminary View 3 – Chapter 2 (following paragraph 2.10):
The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

We agree that guidance on historical cost should be derived from existing text in IPSAS and that App. C is complete.

Preliminary View 4 – Chapter 2 (following paragraph 2.16):
The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

We generally agree that fair value guidance should be aligned with IFRS 13. We are of the view that the definition of "fair value" in the IPSAS literature should be the same in the public as well as the private sector. Generally, we consider *Appendix A: Fair Value–Application Guidance*, to be complete. However, we see that the use of fair value in the understanding of IFRS 13 has some clear limitations in the public sector. The IPSASB should therefore be more explicit about the limitations of the use of fair value (e.g. concept of the highest and best use of an asset) in the public sector (either in the standard on Measurement or in a revised Conceptual Framework).

We suggest that the IPSASB removes "market value" as a public sector measurement basis from its Conceptual Framework and define "fair value" in the Conceptual Framework in line with the Measurement standard.

Preliminary View 5 – Chapter 2 (following paragraph 2.28):
The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

We agree that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. We consider *Appendix B: Fulfilment Value–Application Guidance*, to be complete.

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Preliminary View 6 – Chapter 2 (following paragraph 2.28):
The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

We agree that the replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. In our view, more specific application guidance on replacement cost should be provided, especially how to determine replacement cost in the case of specialized asset/infrastructure assets in the public sector. With regards to the definitions in the ED, we suggest to use the term "current replacement cost approach" rather than "cost approach" to avoid mixing that up with the cost model used in IPSAS 16/17/31. We consider *Appendix D: Replacement Cost–Application Guidance*, to be complete.

Preliminary View 7 – Chapter 3 (following paragraph 3.28):
The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

We agree with the IPSASB's Preliminary View 7 that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Preliminary View 8 – Chapter 3 (following paragraph 3.36):
The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows: "Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability."

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

We agree with the IPSASB's Preliminary View 8 that transaction costs in the public sector should be defined as outlined above.

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Preliminary View 9 — Chapter 3 (following paragraph 3.42):
The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

For consistency and efficiency reasons, and despite the fact that there will be deviations from IFRS, we agree that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.

Preliminary View 10 — Chapter 3 (following paragraph 3.54):
The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- *Excluded in the valuation of liabilities measured at fulfillment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Included in the valuation of assets measured at historical cost and replacement cost.*

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

We agree with IPSASB's Preliminary View and consider the IPSASB's rationale for such an approach as convincing. In our view, the formulation "entering a transaction" could be misleading and we suggest to better refer to the disposal of an asset or to the transfer of a liability.

Preliminary View 11 — Chapter 3 (following paragraph 3.54):
The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- *Included in the valuation of liabilities measured at fulfillment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Excluded in the valuation of assets measured at historical cost and replacement cost.*

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

We agree with IPSASB's Preliminary View and consider the IPSASB's rationale for such an approach as convincing. In our view, the formulation "exiting a transaction" could be misleading and we suggest to better refer to the sale of an asset or to the settlement of a liability.

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Specific Matter for Comment 1 — Chapter 2 (following paragraph 2.29):
Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?
If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

As outlined earlier, in case that the IPSASB concludes to retain ""net selling price/net realizable value" in it literature, we would suggest extending the list of definitions in the ED by measurement basis. To avoid duplication of definitions, we assume that the IPSASB will align the definitions in the Conceptual Framework and the Measurement standard.

Specific Matter for Comment 2 — Chapter 3 (following paragraph 3.5):
Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

We have no further remarks on the IPSASB's conclusions on the apparent similarities between IPSAS, IVS and GFS. Given the fact that neither equitable value nor synergistic value (or a comparable measurement bases) have been defined in IPSASB's Conceptual Framework, we don't see a need to review those measurement bases for relevance to measuring public sector assets. The IPSASB may generally assess in that context whether it should extend its alignment policy to also align with IVS. In our view, a joint approach by the IASB and the IPSASB would be preferable.

Specific Matter for Comment 3 — Chapter 4 (following paragraph 4.21):
Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered […]

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

We agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide in general a helpful and useful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS. With regards to the use of replacement cost and historical cost, we would suggest elaborating under what circumstances the one or the approach should be preferred.

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

We suggest to also consider the following factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS:

- Concept of capital maintenance (nominal versus real capital maintenance)
- Availability of information and cost of information to determine a certain measurement basis

Finally, the factor "Contribution to, or subtraction from, future cash flows" in para. 4.9 (b) of the CP should be defined from a public sector perspective and therefore primarily refer to service potential and not to cash flows.

Specific Matter for Comment 3 — Chapter 4 (following paragraph 4.21):
Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered […]

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors?
Please provide your reasons.

We agree that the measurement flow charts provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS.



Republic of Kenya

PSASB
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

CPA Centre, 8th Floor
Thika Road, Ruaraka
P.O. Box 38831 - 00100
Nairobi, Kenya
Cell: 0757 924 842
Tel: 020-2511557
www.psasb.go.ke

Ref: PSASB 1/1 Vol.12/ (85) **Date: 9th October 2019**

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

IPSASB'S CONSULTATION PAPER ON MEASUREMENT

The Public Sector Accounting Standards Board (PSASB), Kenya was established by the Public Finance Management Act (PFM) No.18 of 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28th February, 2014 and has been in operation since.

The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and Public entities in Kenya and to prescribe internal audit procedures which comply with the Public Finance Management Act, 2012.

The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on IPSASB's Consultation Paper on Measurement. The measurement project's objective of providing guidance on measurement bases for public sector entities applying IPSAS is welcome by the PSASB- Kenya.

PSASB Kenya responses on Preliminary Views and Specific Matters for Comment are documented in the attachment for your consideration.

With kind regards,

CPA FREDRICK RIAGA
CHIEF EXECUTIVE OFFICER, PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PSASB's Responses to Consultation Paper on Measurement

Preliminary View 1-Chapter 2

The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

PSASB opines that in addition to the four identified measurement bases, value in use and net realizable value, although extensively covered under IPSAS 21, 26 and 12, should be included in the list of measurement basis due to the following reasons:

1. ***These two measurement bases were identified under the conceptual framework and are being used under IPSAS standards.***
2. ***The objective of this project is to develop a standard on measurement that will identify most commonly used measurement bases and provide definitions and explanatory text for those measurement bases. This standard will be the first reference point for constituents to obtain guidance with regards to what and where a measurement basis is to be used.***

   PSASB's suggestion is that figure 2.1 in the consultation paper- 'Measurement basis used in existing IPSAS' should be included in the Standard in its refined form to guide constituents on the IPSAS standards within which each measurement basis is used.

Preliminary View 2- Chapter 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

PSASB- Kenya agrees that the proposed measurement standard should define all the measurement bases and provide guidance on approaches under those measurement bases. Specific guidance in relation to which measurement basis is to be used, should be given in the specific standard. This view is clearly captured under the objective of the measurement standard as outlined in the illustrative ED under Addendum A.

PSASB's Responses to Consultation Paper on Measurement

Preliminary View 3- Chapter 2

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix **C: Historical Cost**– Application Guidance for Assets, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Agreed. In so far as historical cost measurement basis is concerned, PSASB finds the guidance included under IPSAS 16 and IPSAS 17 to be adequate in its jurisdiction. The application guidance under the historical cost can however be expanded to include the extent to which historical cost is relevant.

Preliminary View 4- Chapter 2

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers **Appendix A: Fair Value–Application Guidance, to be complete**. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PSASB agrees with IPSASB on the approach to align guidance on fair value to IFRS 13 taking into account public sector financial reporting needs. Currently, the fair value measurement is used in some IPSAS standards yet there is no guidance on the same within the IPSAS conceptual framework.

Preliminary View 5- Chapter 2

The IPSASB's Preliminary View is fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers **Appendix B– Fulfilment Value**–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed

PSASB agrees that the expanded guidance on fulfilment value is complete for application in IPSAS.

Preliminary View 6- Chapter 2

The IPSASB's Preliminary View is replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded based on its application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PSASB's Responses to Consultation Paper on Measurement

Preliminary View 9- Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment

PSASB agrees that transaction costs should be addressed in the proposed Measurement Standard. This will address the lack of a general definition of transaction costs and ensure a consistent meaning of transaction costs within IPSASs. Transaction costs should be outlined for each measurement basis under the proposed standard to offer guidance to the constituents.

Preliminary View 10- Chapter 3

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

PSASB agrees that transaction costs, when entering a transaction, should be excluded in valuation of liabilities at fulfilment value, excluded from valuation of assets and liabilities at fair value and included in valuation of assets measured at historical cost and replacement cost

Preliminary View 11- Chapter 3

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment

PSASB agrees that transaction costs, when exiting a transaction cost, should be included in valuation of liabilities measured at fulfilment value, excluded from valuation of assets and liabilities measured at fair value and excluded from assets measured at historical cost and replacement cost.

PSASB's Responses to Consultation Paper on Measurement

Specific Matter for Comment -3- Chapter 4

Do you agree that the measurement flow charts (**Diagrams 4.1 and 4.2**) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including: - The Conceptual Framework Measurement Objective; - Reducing unnecessary differences with GFS; - Reducing unnecessary differences with IFRS Standards; and - Improving consistency across IPSAS. If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons

Agreed. However, in line with our response to Preliminary View 1, the flow charts should be expanded to include value in use and net realizable value measurement bases in order to present a holistic view of the project and provide guidance to constituents on the measurement bases to apply for items of assets and liabilities.

(NBAA)

THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS

TANZANIA

TEL NOS: +255 26 2963318-9
E-MAIL: info@nbaa.go.tz
WEBSITE: www.nbaa.go.tz

NATIONAL AUDIT OFFICE "AUDIT HOUSE",
8TH FLOOR, 4 UKAGUZI ROAD,
P. O. BOX 1271,
41104 TAMBUKARELI,
DODOMA, TANZANIA

Our Ref: CCD.562/573/01 **28th September, 2019**

Chief Executive Officer,
International Federation of Accountants,
International Public Sector Accounting Standard Board,
529 5th Avenue
New York, New York 10017.

Dear Sir/Madam

RE: COMMENTS ON THE CONSULTATION PAPER ON MEASUREMENT

Refer to the heading above.

NBAA as the PAO responsible for the professional training, development and regulation of the accountancy profession in Tanzania and as the member board of the International Federation of Accountants welcomes the opportunity to provide you with our comments on the Consultation Paper about measurement.

In principle, we are supportive of all the requirements in the Consultation Paper, However, after going through it we came up with the following critical insights which we think can add value and consequently ensure wider coverage with respect to issues related to measurement in the public sector.

Preliminary View 1—Chapter 2 (following paragraph 2.6)
The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

We do agree with the IPSASB's preliminary view: *Nevertheless it is very rare to find a public sector institution liquidated and bankrupt but we recommend a realization basis to be included it should be highly stressed that the basis should be used when and only when a public sector institution is totally and completely liquidated.*

Preliminary View 2—Chapter 2 (following paragraph 2.6)
The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

We do agree with the IPSASB's preliminary view: *because this will help eliminate contradictions and inconsistencies of assets and liabilities' measurement models that are found in a number of standards.*

Preliminary View 3—Chapter 2 (following paragraph 2.10) The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

We do agree with the IPSASB's preliminary view: *this help the availability of a guidance on historical cost in a one centered guideline instead of being scattered in various standards.*

Preliminary View 4—Chapter 2 (following paragraph 2.16)
The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

We do agree with the IPSASB's preliminary view*: because it directly corresponds to the intention of the Board but it should be well customized to public sector atmosphere.*

Preliminary View 5—Chapter 2 (following paragraph 2.28)
The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

We do agree with the IPSASB's preliminary view*.*

Preliminary View 6—Chapter 2 (following paragraph 2.28)
The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Preliminary View 7—Chapter 3 (following paragraph 3.28)
The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

We do agree with the IPSASB's preliminary view: *because borrowing cost mislead users that a qualifying asset is having a greater service potential by the amount of finance cost as a result of borrowing. This distort faithful representation of entity's financial statements.*

Preliminary View 8—Chapter 3 (following paragraph 3.36)
The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

We do agree with the IPSASB's preliminary view of the definition of transaction costs.

Preliminary View 9—Chapter 3 (following paragraph 3.42)
The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

We do agree with the IPSASB's preliminary view: *because transaction costs is determined with the purpose of ascertaining the cost of an assets, therefore it should be addressed within the same standard on measurement.*

Preliminary View 10—Chapter 3 (following paragraph 3.54)
The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

We do agree with the IPSASB's preliminary view:

Preliminary View 11—Chapter 3 (following paragraph 3.54)
The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

We do agree with the IPSASB's preliminary view:

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)
Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

We do agree with the definitions provided, *in addition the list should include a definition of the concept of best of use of an asset.*

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)
Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted.

Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

We do agree with the IPSASB's preliminary view:

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

We do agree with the IPSASB's preliminary view:

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)
Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:
- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

We do agree with the IPSASB's preliminary view:

If you require any clarification on our comments, please contact the undersigned.

Thank you in advance for your cooperation.

Yours sincerely,



CPA Angyelile V. Tende
For: EXECUTIVE DIRECTOR

Member of International Federation of Accountants (IFAC) & Pan African Federation of Accountants (PAFA)

All communication to be addressed to the Executive Director NBAA

NBAA Dar es Salaam Branch: Mhasibu House, Bibi Titi Mohamed Street,
P. O. Box 5128, Dar Es Salaam, Tanzania Tel: +255 22 2211890-9

Ref. Ares(2019)6309740 - 11/10/2019

EUROPEAN COMMISSION
BUDGET

The Accounting Officer of the Commission

Brussels,
BUDG.DGA1/RAB

Mr Ian Carruthers
Chairman
International Public Sector Accounting Standards Board (IPSASB)

Comment letter on Consultation Paper *Measurement*

Dear Mr Carruthers,

We welcome the opportunity to comment on the above-mentioned Consultation Paper '*Measurement*' (the 'CP'). The following comments are made in my capacity as Accounting Officer of the European Commission (the 'EC') responsible for, amongst other tasks, the preparation of the consolidated annual accounts of the European Union, which comprise more than 50 European Agencies, Institutions and other European Bodies with an annual budget of more than EUR 140 billion[1].

We would like to thank the International Public Sector Accounting Standards Board (the 'IPSASB') for this opportunity to contribute to the due process and we are pleased to provide you with our comments with the aim of improving the transparency, relevance and comparability of the financial statements across jurisdictions.

We support the IPSASB's approach to align public sector accounting standards with International Financial Reporting Standards (the 'IFRS'), whenever the nature of the transaction is economically the same, and any public sector specific issues are addressed separately.

The EC welcomes the discussions on measurement as we consider measurement a fundamental aspect of financial reporting, in particular we welcome the proposal to provide guidance on fair value and the fact that the proposed guidance is based on IFRS 13 *Fair Value Measurement*.

[1] For the sake of clarity, the views presented in this comment letter do not represent the views of the EU Member States, or the views of European Public Sector Accounting Standards ('EPSAS') team, and are without prejudice to future decisions which may be taken in the context of the EPSAS project.

Overall, the EC agrees with the proposals included in the CP and we consider that this guidance will fill a gap in the IPSAS literature. Nonetheless, in order for the guidance to be complete we consider that it should include all measurement bases.

Our detailed comments are provided in the Appendix to this letter.



Rosa ALDEA BUSQUETS

cc: Nicole Smith (DG.BUDG. DGA1.C), Derek Dunphy, Martin Koehler, Bruno Gomes, Magdalena Zogala (DG.BUDG.C2), John Verrinder (ESTAT.C1)

Electronically signed on 11/10/2019 07:57 (UTC+02) in accordance with article 4.2 (Validity of electronic documents) of Commission Decision 2004/563

Ref. Ares(2019)6309740 - 11/10/2019

Appendix – Response to the questions raised in the Consultation Paper (CP)

Question (Preliminary View 1) – Which measurement bases needed guidance

The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Response

The EC fully supports the introduction of an IPSAS standard providing application guidance for the measurement bases to which the overall principles are set out in the IPSAS Conceptual Framework ('IPSAS CF'). We find the proposed guidance useful and necessary.

Nevertheless, we consider that in order to achieve its objectives[2] the future measurement standard should not be restricted to certain measurement bases, but rather be extended to all the measurement bases listed in the consultation paper (Figure 2.1), thereby achieving completeness from a conceptual point of view. In this regard, we understand the distinction between market value and fair value is a matter that will be discussed in the context of the Conceptual Framework Limited-Scope Review project, whether the outcome of this project confirms market value as a separate measurement base, application guidance should be included in the future measurement standard.

Finally, the EC welcomes the introduction of the concept of fair value as defined in IFRS 13 in the IPSAS literature as we believe that the same terminology used in IPSAS/IFRS should mean the same in substance and fair value as applied in the private sector is for many transactions which are economically the same also an appropriate measurement base for the public sector.

Question (Preliminary View 2) – Whether guidance should be generic

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

[2] Illustrative Exposure Draft establishes that "*the objective of this Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity, and financial capacity of assets and liabilities and how to identify approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting*".

Response

In line with our comments on the Preliminary View ('PV') 1, the EC supports the Board's view of issuing an IPSAS standard with generic guidance on measurement. We consider that given the specificities and judgement needed to measure the elements of the financial statements and its application across IPSAS standards, the generic guidance will assist public sector entities bridging the requirements in current IPSAS with the principles of the IPSAS CF.

We agree that the transaction specific guidance should rather be incorporated in the specific IPSASs addressing that transaction. Even though we understand that disclosures are not in the scope of this project, we take the opportunity to comment that, from our perspective, disclosures that would be required for items across the IPSAS standards should be required under the measurement standard and not repeated in each single IPSAS, such as the disclosure of fair value hierarchy.

Question (Preliminary View 3) – Whether guidance on historical cost is complete

The IPSASB's Preliminary View is guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers ***Appendix C: Historical Cost–Application Guidance for Assets****, to be complete.* *Do you agree with the IPSASB's Preliminary View?* *If not, please provide your reasons, stating clearly what you consider needs to be changed.*

Response

Generally, the EC considers the generic guidance on historical cost put forward by IPSASB very useful. In our view, it supports the consistent application of the specific IPSASs and provides useful generic guidance applicable to many accounting transactions.

Nevertheless, we would like to comment on the following points of the guidance:

The value of Other Consideration: Exchange for Non-Monetary Asset(s)

Currently, paragraph 38 of IPSAS 17 *Property, Plant and Equipment* requires an entity to measure an exchanged asset at fair value (unless it lacks commercial substance; or the fair value of either the asset given or asset received is not reliably estimate). The standard further clarifies in paragraph 40 that if an entity is able to determine reliably the fair value of both (asset given up/received), then the fair value of the asset given up shall be used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

We understand that paragraph C4 of the illustrative ED the IPSASB provides two changes in substance to the above:

a) Fair value is replaced by current value: The EC considers that using the current value might be more appropriate in public sector as preparers are allowed to choose the appropriate current value dependent on the economic circumstances

and the objectives of financial reporting (i.e. cost of services, operational capacity and financial capacity).

b) Fair value of the asset received: We noticed that in paragraph C4 of the illustrative ED, the condition (b) (*the current fair value of the asset given up cannot be measured (...)*) was also changed as compared to the current wording of IPSAS 17 given that the standard refers to the fair value of the asset given up or received. We suggest clarifying whether or not this change was intended and the reasons for it. It would in particular be useful to understand how entities should apply the guidance to an exchange of assets, since the reading of the new text seems inconsistent with the provisions in IPSAS 17, which currently requires that the value of the asset received should be used if more clearly evident. Finally, we note that the same requirement exists for intangible assets (IPSAS 31.44), to the extent that IPSAS 17 is amended, IPSAS 31 *Intangible Assets* should be amended accordingly.

Furthermore, we highlight that there might be an inconsistency between the measurement of an asset acquired in an exchange of asset that lacks commercial substance, which shall be measured at carrying amount, and an asset acquired in a non-exchange transaction that falls in the scope of IPSAS 23 *Revenue From Non-Exchange Transactions (Taxes and Transfer),* which requires the asset to be measured at fair value at initial recognition.

Purchase, Construction and Development of an Asset: Examples of Consideration to Include

The illustrative exposure draft includes in paragraph C15 guidance drawn from IPSAS 17 on the elements of the cost. We would like to suggest including guidance on the following issues: (i) Penalties: consider clarifying whether any penalties (liquidated damages) received should be deducted from the cost of the item in case a constructor would have to compensate the entity for delays in the asset development; and (ii) Incentives: consider clarifying whether the cost of the item should include any contractual amount conditional to a future event (e.g. the construction contract may include incentives that are only to be paid depending on the quality of the asset functioning during several years of operations).

Finally, in reference to C18, we would propose to reconsider if some of the guidance included in IPSAS 31 should become part of the generic guidance on the historic costs in the future measurement standard. We note that there could be cases where a development of a PPE item is also preceded by a research phase. In particular, we refer to feasibility studies done for some innovative, specialised assets (e.g. satellite navigation systems).

Question (Preliminary View 4) – Whether guidance on fair value is complete

The IPSASB's Preliminary View is fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers ***Appendix A: Fair Value–Application Guidance****, to be complete.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response

The EC fully supports IPSASB's view that clarifying guidance on the term fair value in the IPSAS literature was necessary since it may lead to many misunderstandings of readers of the two suites of standards. We agree that IFRS 13 is appropriate for the public sector for transactions that are economically the same as the ones in the private sector. This point is particular relevant for the EC due to the interconnection of our activities with private sector partners.

Furthermore, we agree with IPSASB's view that assumption of the highest and best use must be taken into account in calculating the fair value of a non-financial asset. Without this requirement, we consider that there could be room for a higher level of subjectivity and discretion in the valuation of a non-financial assets, and consequently in the financial statements.

Question (Preliminary View 5) – Whether guidance on fulfilment value is complete

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers ***Appendix B: Fulfilment Value–Application Guidance****, to be complete.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response

The EC supports the proposed guidance for fulfilment value.

However, we consider that the link to IPSAS 19 *Provision, Contingent Liabilities and Contingent Assets* should be further explained. From our experience, fulfilment value is the measurement base that underpins the measured under IPSAS 19. The examples (legal claim and decommissioning liability) included in the illustrative ED seem to confirm that fact as they would fall in the scope of IPSAS 19.

Paragraph B7 indicates that there are two layers in estimating the value of a liability: in a first step, an entity apply fulfilment value for the amount to fulfil the cost, and in a second step IPSAS 19 for the excess of the cost to fulfil.

> "The fulfilment value represents the amount the entity is obligated to incur to settle the liability. This obligation represents the minimum amount an entity will incur assuming the entity completely satisfies its obligation. For example, an entity may have an obligation to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfil the minimum obligation of restoring the land to its original condition and therefore are not representative of the cost to fulfil the liability. In cases where an entity intends to fulfil the liability beyond its commitment, guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, should be applied when accounting for amount in excess of the cost to fulfil."

(Consultation Paper, Illustrative ED, paragraph B7)

The EC considers that IPSAS 19 would apply entirely to the examples provided in paragraph B4 and the best estimate of the expenditure required by IPSAS 19 would have to be applied in measuring the liability. This is particularly relevant since the proposed guidance for fulfilment value seems to overlap the guidance on measurement available in IPSAS 19, in particular due to the use of 'least costly manner' to settle the obligation, compared to the 'most likely amount' required by IPSAS 19 in computing the best estimate of the expenditure. Even though the current contradiction may already exist – since the 'least costly manner' is referred to in IPSAS CF, in practice IPSAS 19 requirements override the IPSAS CF in accordance with paragraph 9 of IPSAS 3. If the illustrative ED becomes an IPSAS, uncertainty will arise as to which standard should first be applied in terms of measurement of such liabilities.

Consequently, we suggest that the IPSASB should clarify the interaction between the new guidance on fulfilment value and IPSAS 19.

Moreover, in our view, it seems to be a contradiction between guidance in B9 and B10 (B11). While under B9 it is presumed that the least costly manner is the one in which the entity has selected to release itself from the obligation, B10 seems to indicate that this only applies when the entity would do the work by itself, while if this is contracted out – the least costly manner has to be proven.

Question (Preliminary View 6) – Whether guidance on replacement cost is complete

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers ***Appendix D: Replacement Cost–Application Guidance****, to be complete.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response

We agree with IPSASB proposal.

Question (Preliminary View 7) – Borrowing costs: Proposal to expense

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

Response

In our view the proposed principle that all borrowing costs should be expensed rather than capitalised has its merits as it provides preparer with a clear approach which would

be easy to apply and easy to understand. However, we acknowledge that there may be circumstances in the public sector where an entity would be able to directly attribute the borrowing costs to the acquisition, construction or production of a qualifying asset. In these circumstances, an entity would be able to comply with the principle[3] that the cost of an asset should include the purchase price and other costs directly attributable to the acquisition or issuance of the asset. In the public sector, legal provisions may exist which limit the possibility for entities to borrow money to finance specific assets (e.g. the construction of an office building) combined with the obligation for the entity to submit the financing plan (i.e. maximum level of financing, financing period, type of financing, financing conditions and savings compared to other forms of financing) for that specific asset to Parliament for approval. Under these circumstances the alternative option (Option 3) may result in more relevant information for users of financial statements.

Question (Preliminary View 8) – Transaction costs: Definition

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Response

We agree with the proposed definition of transaction costs.

Question (Preliminary View 9) – Where should the guidance be addressed?

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Response

The EC fully supports IPSASB's view.

[3] Underlying principle set out in several IPSAS as to what should be included in the cost of the asset. This is included for example in the following standards: IPSAS CF.7.15; IPSAS 16.28; IPAS 17.30(b); and IPSAS 31.34(b).

Question (Preliminary View 10) – Transaction costs when entering into a transaction

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response

We agree with IPSASB's view.

We understand however that the CP is focused particularly on fixed assets and we consider the question on capitalisation of transaction costs may also occur under other types of assets, such as the cost of an investment of an associate or joint venture.

In accordance with paragraph 16 of IPSAS 36 *Investment in Associates and Joint Venture*, under the equity method, on initial recognition, the investment is recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

Though the IPSAS 36 does not address the cost of an investment in associate or joint venture, in particular whether transaction costs should be capitalised, in our view, since generally the cost includes the purchase price and other costs directly attributable to the acquisition, transaction costs should also be capitalised in the cost of the investment.

IPSASB could take this opportunity to clarify upon this issue.

Question (Preliminary View 11) – Transaction costs when exiting into a transaction

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response

We agree with IPSASB's view.

Question (Specific Matter for Comment 1) – List of the definitions included in the illustrative ED

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Response

We consider the list of definitions is comprehensive. However, in line with our comment in PV1 we consider that 'market value' should be included in this list, subject to the conclusions on the limited review of the IPSAS CF. In addition, we suggest to include a definition of 'current value' following the incorporation of this term in an IPSAS.

CONSELHO FEDERAL DE CONTABILIDADE

Responses to IPSASB Consultation Paper: Measurement
(April, 2019; Comments due: October 14, 2019)

CONSULTATION PAPER (CP)

MEASUREMENT

The Technical Director

International Public Sector Accounting Standards Board (IPSASB)

International Federation of Accountants

277 Wellington Street West, 6th floor

Toronto, Ontario M5V 3H2 CANADA

Brasília, Brazil

October 14, 2019

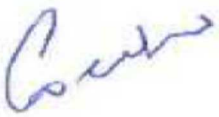
Dear Mr. John Stanford,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on *Measurement.* CFC, along with its regional arms - Regional Accounting Councils or Conselhos Regionais da Contabilidade (CRCs), is the Professional Accountancy Organization that carries out regulatory activities including the issuance standards of ethics, education for accountants, auditing and accounting for the private and public sectors and the overseeing of the accountancy profession throughout the country.

Our points of view and comments are included in the Appendix to this letter and was prepared by the Advisory Group for Public Sector Accounting Standards (GA/NBC TSP) of the CFC.

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,



Idésio S. Coelho
Technical Vice-President
Conselho Federal de Contabilidade

CONSELHO FEDERAL DE CONTABILIDADE

Responses to IPSASB Consultation Paper: Measurement
(April, 2019; Comments due: October 14, 2019)

APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, the Federal District and more than 5,500 city governments. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements.

In this document, we present the contributions for the consultation paper based on a practical approach applicable to our jurisdiction.

In general, we believe that most of the IPSASB propositions of the Measurement project are appropriated, however, we think that, at least, all measurement bases existing in specific IPSAS should be considered as part of the planned Measurement standard, including Value in Use and Net Realizable Value.

In addition, we share the opinion that it's important to identify the fair value as a measurement basis in the IPSASB's Conceptual Framework, clarifying what are the differences between Market Value and Fair Value, and also that borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset must be capitalized.

In the next section, we present our comments and answers on the preliminary views and specific matters for comment of the consultation paper.

CONSELHO FEDERAL DE CONTABILIDADE

Responses to IPSASB Consultation Paper: Measurement
(April, 2019; Comments due: October 14, 2019)

2. Responses to the Preliminary Views and Specific Matters for Comment

Preliminary View 1 – Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

GA/CFC does not agree with Preliminary View 1. The measurement bases identified in Chapter 7 of the Conceptual Framework are: historical cost, market value, replacement cost, net selling price, and value in use, for assets; and, historical cost, cost of fulfilment, market value, cost of release, and assumption price, for liabilities. In deciding whether it needed to develop generic application guidance, the IPSASB considered how widely a particular measurement basis was used, excluding measurement bases whose specific IPSAS applies to specific transactions (e.g., value in use) and net realizable value (currently not considered necessary because this measurement basis is specific to inventories).

However, the IPSASB considers the possibility to select other bases in order to achieve this measurement objective (see Diagram 4.1 and 4.2). Considering this, it is expected a generic application guidance about the other bases with the purpose to allow constituents to evaluate the decision made by the IPSASB in providing guidance on application of measurement bases in existing and future IPSAS, and guidance on how to apply the measurement bases where specific IPSAS is not sufficient, and as a result the bases presented in Conceptual Framework should be used. In summary, at least, all bases presented in specific IPSAS require an application guidance.

Preliminary View 2 – Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

GA/CFC agrees with Preliminary View 2. We believe that adding a specific guidance for a specific IPSAS within that IPSAS can be more methodologically appropriate to users, in accordance with the view that the new measurement standard should focus on generic principles rather than on the specificities of particular transactions or standards.

CONSELHO FEDERAL DE CONTABILIDADE

Preliminary View 3 – Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

GA/CFC partially agrees with Preliminary View 3. In developing measurement guidance for historical cost in the Illustrative ED, the IPSASB consolidated guidance available in the Conceptual Framework, IPSAS 16 (Investment Property), and IPSAS 17 (Property, Plant, and Equipment), but the board did not address historical cost for liabilities.

Therefore, the proposal of carrying over the existing text from those IPSAS that is generic in nature directly into the Illustrative ED seems to be appropriate in relation to assets. However, for liabilities, a new guidance should be provided.

Preliminary View 4 – Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

GA/CFC partially agrees with Preliminary View 4, considering some issues presented below.

Considering that fair value measurement requirements are most commonly referred to in IPSAS that are aligned with IFRS Standards (IPSAS 16 – Investment Property, IPSAS 17 – Property, Plant, and Equipment, and IPSAS 41 – Financial Instruments), and also that the relevance of fair value in the public sector is likely to be primarily limited to provide information on financial capacity, rather than information on operating capacity, and cost of services, it seems reasonable that fair value guidance should be aligned with IFRS 13 where applicable, without disregarding public sector financial reporting requirements in order to provide information to stakeholders.

Although GA/CFC shares the view that fair value as defined in IFRS 13 is relevant, we believe that measuring the fair value of some non-financial assets held by public sector entities based on its highest and best use by market participants is controversial, because it may not appropriately reflect the relevant service potential of asset to the public sector entity (indeed, in order to achieve the public interest, an entity may intend not to use the asset according to its highest and best use).

However, we believe that's important to consider the fair value as a measurement basis in the Conceptual Framework, and to identify what are the differences between fair value and market value. It is also important to describe the relationship between replacement cost as defined in the Conceptual Framework (as a measurement basis) and replacement cost as a measurement technique to determine fair value.

CONSELHO FEDERAL DE CONTABILIDADE

Preliminary View 5 – Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

GA/CFC agrees with Preliminary View 5. Since there are concepts developed on fulfilment value base in the Conceptual Framework, it seems to be appropriate that fulfilment value guidance should be defined from the perspective of the Conceptual Framework, expanding the related principles and developing guidance on how to apply it.

Preliminary View 6 – Chapter 2 (following paragraph 2.28)
The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

GA/CFC partially agrees with Preliminary View 6. Since there are concepts developed on replacement cost basis in the Conceptual Framework, it seems to be appropriate that replacement cost guidance should be defined from the perspective of the Conceptual Framework, expanding the related principles and developing guidance on how to apply it.

However, as mentioned in the answer about PV4, we believe that it is important to describe the relationship between replacement cost as defined in the Conceptual Framework (as a measurement basis) and replacement cost as a measurement technique to determine fair value.

Preliminary View 7 – Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

GA/CFC does not agree with Preliminary View 7. We believe that all costs incurred to obtain the asset and get it ready for its intended use, including borrowing costs, should be included in the cost of an asset, so that expenses would be allocated to the reporting period which they are related, better supporting the assessment of the cost of services. Thus, we support the option 3.

In public sector, borrowing costs are often centralized and funding schemes to obtain an asset comes from a variety of sources which include tax revenues, service fees, debt and so on. In our jurisdiction, the financial information systems can generate segregated information that make the attribution of borrowing costs to qualifying assets possible in a reasonable and non-arbitrary manner. For this reason, we believe that there would be no operational limitation on applying it in many jurisdictions.

CONSELHO FEDERAL DE CONTABILIDADE

We also believe that capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset is appropriate based on the premise that historical cost is an entity-specific value. In other words, the capitalization of borrowing costs reflects economic opportunities that are not available to other entities and risks that are not experienced by other entities (which is in line with the Conceptual Framework – Chapter 7), including the entity's financing choices.

In relation to the issue that capitalization of borrowing costs appears to incorrectly show to users of the financial statements that assets financed through borrowing have more service potential or future economic benefits compared to similar assets held by an entity that does not use debt to finance its asset acquisitions, it's important to remember that one of the objectives of measurement, in accordance with the Conceptual Framework (Chapter 7), is enable users to assess the cost of services provided in the period, meaning, in the case of historical cost, the resources expended to acquire or develop assets consumed in the provision of services.

Regarding the issue that the capitalization of interest costs would "hide" the amount of borrowing costs, the disclosure in notes to the financial statements about the amount of interest capitalized allows users to calculate total borrowing costs for the period.

Finally, although one of the IPSASB's stated objectives is to reduce unnecessary differences between IPSAS and GFS, the different objectives and focus on different reporting entities lead to the different treatment of some transactions and events. Thus, the option of all borrowing costs should be expensed, although aligned with the requirements in IPSAS 5 with GFS, seems not to be in line with the measurement objective of reflecting the costs of services, i.e., the amount of the resources expended to acquire or develop assets consumed in the provision of services, including the costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

Preliminary View 8 – Chapter 3 (following paragraph 3.36)

The IPSASB's Preliminary View is transaction costs in the public sector should be defined as follows: Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

GA/CFC agrees with Preliminary View 8. We think that the proposed definition is aligned with the IFRS Standards, IVS and GFS definitions of transaction costs, highlighting that transaction costs are a direct result of the transaction accommodating an entry and exit price.

Considering that a number of IPSAS refer to such costs in different terms with different requirements and guidance, and generally do not call them "transaction costs", we believe that is important to define "transaction costs" in the public sector in order to improve consistency in how transaction costs are accounted according to different IPSAS. In other words, we agree that a general definition of transaction costs would ensure a consistent meaning for transaction costs in all IPSAS suite of standards, while also supporting the understandability of IPSAS.

CONSELHO FEDERAL DE CONTABILIDADE

Preliminary View 9 – Chapter 3 (following paragraph 3.42)

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

GA/CFC agrees with Preliminary View 9. Developing general measurement guidance in the IPSAS, Measurement, is an objective of the IPSASB in this project. We believe that the development of a general definition of transaction costs that applies consistently to all IPSAS supports the view that transaction costs are the same regardless of the nature of the transaction.

Preliminary View 10 – Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

GA/CFC partially agrees with Preliminary View 10.

We disagree with the exclusion from the valuation of assets and liabilities measured at fair value as in accordance with paragraphs 4.1.2A and 5.7.5 (and example in paragraph B5.2.2) of IFRS 9, the valuation of financial asset measured at fair value with changes through other comprehensive income does not exclude transaction costs.

So, IPSAS will be different from IFRS 9.

Conselho Federal de Contabilidade (CFC)
SAUS Quadra 5 Bloco J Lote 3 - Ed. CFC
Brasília - DF
CEP: 70070-920
+55 (61) 3314-9600

CONSELHO FEDERAL DE CONTABILIDADE

Preliminary View 11 – Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

GA/CFC partially agrees with Preliminary View 11.

We disagree with the exclusion from the valuation of assets and liabilities measured at fair value as in accordance with paragraphs 4.1.2A and 5.7.5 (and example in paragraph B5.2.2) of IFRS 9, the valuation of financial asset measured at fair value with changes through other comprehensive income does not exclude transaction costs.

So, IPSAS will be different from IFRS 9.

Specific Matter for Comment 1 – Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

GA/CFC does not agree. We understand that other definitions should be included in the list of definitions of the Illustrative ED:

i) ***Cost of services***: this concept is defined in the Conceptual Framework and means the cost of services provided in the period in historical or current terms.

ii) ***Operation capacity***: as defined in the Conceptual Framework, it means the capacity of the entity to support the provision of services in future periods through physical and other resources;

iii) ***Financial capacity***: this concept is also outlined in the Conceptual Framework, meaning the capacity of the entity to fund its activities.

As one of the objectives of the IPSAS, Measurement, standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities (i.e., achievement of the objective of measurement), it seems to be reasonable that these concepts be defined in the list of definitions of the Illustrative ED.

iv) ***Impairment***: this concept is defined in the core text of the Illustrative ED, meaning the extent to which the service potential or ability to generate economic benefits provided by an asset have decreased due to changes in economic or other conditions, as distinct to

their consumption. It seems to be more methodologically appropriate this concept be carried out to the list of definitions.

v) ***Borrowing costs***: as defined in the IPSAS 5, Borrowing Costs, it means interest and other expenses incurred by an entity in connection with the borrowing of funds. Considering that we share the view that all costs incurred to get the asset ready for its intended use, including the cost of financing, be included in the cost of an asset, we think it's more appropriate the concept of *borrowing costs* be defined in the list of definitions of the Illustrative ED.

Specific Matter for Comment 2 – Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted.

Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

GA/CFC shares the view that it appears to be apparent similarities between IPSAS, IVS and GFS, especially in the discussion of Fair Value and Replacement Cost, between Net Selling Price measurement basis and the IVS Liquidation Value, and between the IPSAS concept of value in use for a cash generating asset and the IVS Investment Value.

GA/CFC agrees with the potential relevance of the concepts of Equitable Value and Synergistic Value for some public sector transactions. For example, the relationship between the Synergistic Value with the concept of *cash-generating unit* from IPSAS 26, *Impairment of Cash-Generating Assets* may represent an interesting issue to explore.

Specific Matter for Comment 3 – Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If not, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

GA/CFC agrees that the measurement flow charts provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS and develop new IPSAS. However, we believe that application guidance about the other measurement bases are necessary to decide about the appropriate basis. If the application guidance about the other measurement bases does not exist, it will be more difficult to evaluate if the bases other than historical cost, replacement cost, fulfillment cost and fair value are more appropriate. In addition, the detailed description regarding only four bases of measurement can generate bias in interpretation and application, since there is more knowledge about the selected ones.



PAFA

PAN AFRICAN FEDERATION OF ACCOUNTANTS

BUILDING A BRIDGE TO A BRIGHTER AFRICA

17 Fricker Road Illovo, Sandton 2196
Private Bag X32 Northlands; Johannesburg, South Africa
Tel: +27 11 479 0602/4; Fax: +27 11 621 6850; Fax2Email: +27 86 207 1471
Website: www.pafa.org.za
Registration Number: 094-631-NPO

The International Public Sector Accounting Standards Board (IPSASB)
Website submission

PREFACE

The Pan-African Federation of Accountants (PAFA), is the continental body representing Africa's professional accountants. Our objective is to accelerate the development of the profession and strengthen the voice of the accountancy profession within Africa and worldwide.

In its unique regional capacity to facilitate PAOs and present a unified position of the profession, PAFA presents below its comments on the Consultation Paper issued by the International Public Sector Accounting Standards Board (IPSASB) titled *Measurement*. The responses have been presented in sequence of the Preliminary Views and Specific Matters for comment as they have been included in the Consultation Paper.

Preliminary View 1:

The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

PAFA response:

We are in agreement with IPSASB's Preliminary View that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.

Preliminary View 2:

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. Do you agree with the

IPSASB's Preliminary View? If not, please provide your reasons, and state what guidance should be included, and why.

PAFA response:

We are in agreement with the Board's Preliminary View.

Preliminary View 3:

The IPSASB's Preliminary View is guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PAFA response:

We are in agreement with IPSASB's Preliminary View.

Preliminary View 4:

The IPSASB's Preliminary View is fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PAFA response:

We are in agreement with the Board's Preliminary View that fair value guidance should be aligned with IFRS 13. IFRS alignment has been a key pillar of IPSAS development for a long time.

Preliminary View 5:

The IPSASB's Preliminary View is fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B–Fulfilment Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PAFA response:

Yes, we are in agreement.

Preliminary View 6:

The IPSASB's Preliminary View is replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded based on its application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

PAFA response:

We are in agreement with the Board's Preliminary View.

Preliminary View 7:

The IPSASB's Preliminary View is all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. Do you agree with the IPSASB's Preliminary View? If not, please state which option you support and provide your reasons for supporting that option.

PAFA response:

Yes, we are in agreement

Preliminary View 8:

The IPSASB's Preliminary View is transaction costs in the public sector should be defined as follows:

> **Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

PAFA response:

Yes, we are in agreement.

Preliminary View 9:

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

PAFA response:

Yes, we are in agreement.

Preliminary View 10:

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

PAFA response:

Yes, we are in agreement

Preliminary View 11:

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

PAFA response:

Yes, we are in agreement.

Specific Matter for Comment 1:

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.
Do you agree that the list of definitions is exhaustive? If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

PAFA response:

Yes, the list of definitions provided is exhaustive.

Specific Matter for Comment 2:

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?
Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

PAFA response:

We have no additional views.

Specific Matter for Comment 3:

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and develop new IPSAS, acknowledging that other matters need to be considered, including:
- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If not, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

PAFA response:

We are in agreement.

Submission by the Association of Chartered Certified Accountants

14 October 2019

To: Ian Carruthers
Chair, IPSAS Board
227 Wellington Street West
Toronto ON, Canada
M5V 3H2

Submission via website

Dear Ian

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

ACCA supports its 219,000 members and over 527,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 110 offices and centres and 7,571 Approved Employers worldwide, who provide high standards of employee learning and development.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA has introduced major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas. Further information about ACCA's comments on the matters discussed here can be requested from:

Alex Metcalfe
Head of Public Sector Policy
alex.metcalfe@accaglobal.com
+ 44 20 7059 5594

Mike Suffield
Director – Professional Insights
mike.suffield@accaglobal.com
+ 44 20 7059 5141

ACCA welcomes the opportunity to comment on the consultation paper issued by IPSAS Board on *Measurement*. The ACCA Public Sector Global Forum, staff experts and broader ACCA stakeholders have considered the matters raised and their views are represented in the following.

It is worth noting that ACCA contributed to the Accountancy Europe (AE) response on this consultation. The purpose of this response is to highlight clarifications and additional comments from ACCA in regards to the *Measurement* consultation.

Comment outside of Preliminary Views and Specific Matters for Comment

ACCA wishes to strengthen the point made in the AE response regarding the purpose of the Conceptual Framework (CF), relative to standards and application guidance. The CF should provide the underpinning concepts supporting the standards and application guidance and not act as the source of the principles-based rule itself. The IPSAS Board should avoid inconsistency between the CF and the IPSASs. It is worth noting that the illustrative Exposure Draft (ED) does not indicate amendments required to other standards or in fact the CF itself, though this will be critical to maintaining a coherent set of IPSASs that align with the CF.

AREAS FOR SPECIFIC COMMENT:

Preliminary view 1 – Chapter 2

The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why?

Response

We agree that fair value, fulfilment value, historical cost and replacement cost require application guidance. It is our view that any measurement basis that is currently in use across the IPSASs should be included in the ED. In particular, this would mean the inclusion of 'net realizable value' – though this should be described as 'Fair value less cost to sell' in order to align with IFRS (based on the CP's suitable principle of aligning IPSAS and IFRS terminology, where possible).

In addition to the measurement bases listed in the AE response, we note that 'value in use' needs to be retained due to its connection to impairment.

Preliminary view 2 – Chapter 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

Response

We agree with the Preliminary View.

Preliminary view 4 – Chapter 2

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response

Fair value guidance should be aligned as far as possible with IFRS 13. One exception would be 'highest and best use', which should be adapted to the public sector context.

Preliminary view 7

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.
Do you agree with the IPSASB's Preliminary View?
If not, please state which option you support and provide your reasons for supporting that option.

Response

We do not agree with the Preliminary View and instead advocate for retaining the option to capitalise certain borrowing costs, where this choice for preparers would be informed by detailed application guidance.

ACCA agrees with the opinion of AE regarding recognition of instances where capitalisation of borrowing costs is appropriate, but clarifies that there may be instances where expensing borrowing costs is more appropriate, for example to meet the needs of General Purpose Financial Statement (GFS) users. At the same time, we also recognise the argument in paragraph 3.23, setting out that some users want to see a 'clean' interest cost.

Given the competing opinions to this Preliminary View, as well as the importance of borrowing costs in the public sector context, ACCA recommends that the IPSAS Board considers this matter in more detail.

Preliminary view 8

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Response

We agree with the IPSAS Board's Preliminary View on the definition of transaction costs.

Preliminary view 10

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfilment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost. Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response

ACCA believes there may be instances when transaction costs should be included within the fair value measurement basis and is a market driven value. In reality transaction costs maybe sizeable and hence wholly relevant to user decision making.

Specific matter for comment 3

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost– Application Guidance for Assets, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response

ACCA would like to clarify that the decision boxes represent choice in situations such as replacing an asset or preparation for disposal.

The reference to Appendix C in the green historical cost box needs to be amended; Appendix C refers to assets, whereas the flowchart relates to liabilities.

Ref x://Liquid Pacific - Measurement

Monday, 14 October 2019

IPSASB
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

Dear Sir/Madam,

Re: Consultation Paper – Measurement

Liquid Pacific is a valuation practice that specialises in the provision of asset valuations for inclusion in financial statements. Our primary client base is Government at all levels across Australia. We are practicing members of the Australian Property Institute and the Royal Institution of Chartered Surveyors.

We thank the IPSASB for the opportunity to provide a submission on this topic. On reading the 'measurement' consultation paper, our concern was immediately drawn to the topic of fair value and market value. In sections 2.19 to 2.24, the paper raises a number of queries regarding the concepts of market value and fair value. The inference from these sections is that market value and fair value are different as fair value forces the analyst to consider only the value of an asset from the sellers perspective (exit price).

We disagree with the IPSASB assertion that market value and fair value are different from each other and that the primary point of difference is that IFRS 13 mandates an exit price. In the valuation profession, **market value has always been an exit price**. The underlying assumption in the definition for market value, as with the fair value definition, is that both parties to the transaction accept the selling price is the market value.

Market Value – International Valuation Standards

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

In layman's terms, market value has always been 'the most likely selling price'. Further, it is generally accepted by the valuation profession, in Australia at least, fair value and market value are one in the same.

As acknowledged, previous definitions of fair value were aligned with the market value definition. When IFRS 13 was introduced to Australia as AASB 13, we queried the Australian Accounting Standards Board as to why the wording in the definition of fair value had changed from its obvious market value similarity. We were advised the IASB wanted to stress to the accounting/finance industry and users of financial statements that fair value did not reflect a buy-in price, so the use of the term *'the price that would be received to sell'* in the current definition (i.e. the selling price, not the purchase cost) was introduced.

As explained to us, it was evidenced the initial definition contained in IAS 16 (AASB 116) was being misunderstood and incorrectly applied.

As the fair value definition simply stated *the amount for which an asset could be exchanged between … willing parties'*, many practitioners and users of financial statements automatically assumed themselves to be the buyer of an asset in the market and immediately defaulted to a replacement cost approach, potentially ignoring secondary markets where assets might be traded.

The intention, as we were advised, was not to change the meaning of fair value as it equates to market value, but rather strengthen the definition as a market value in an attempt to plug the conceptual gap which was being created by the accounting profession.

In instances where assets are readily traded, the entry price concept still provides a market value as long as the analyst refers to the correct markets. We stress, the term 'entry price' does not exist in the valuation industry and for the reason stated above, market value is an exit price.

The issue then arises for the public sector when not all assets, due to their uniqueness, can be purchased in trading markets. Thus IFRS 13 went one step further to expressly state fair value has to be the selling price, and where markets don't exist, assume they do and adopt the same considerations willing buyers and willing sellers would if they also existed in that hypothetical market. In simple terms, the approach to valuation for unique assets is to establish the cost to replace the asset, and then adjust that cost if necessary to reflect what market participants would consider when transacting the asset (i.e. willing buyer, willing seller). This approach is referred to as the cost approach.

For the valuation profession, the cost approach is the least desirable approach to valuation as it relies on a general interpretation of the market, rather than direct transactions of same or similar properties. However, the cost approach is a market-based approach and as with the direct comparison approach and the income approach, its objective is to reflect an asset's market value.

The valuation profession centres around the principle an asset has a value which can be formulated using one (or a combination) of three valuation approaches and, under the same assumptions, an asset can have only one market value at the time of valuation.

There are three primary approaches to valuation. The choice of valuation method is intended to reflect the type of asset being valued and the market in which it exists. This is not always an easy task and it can take years of experience before valuers gain the market insights required to get this combination correct.

The following is a fundamental concept of the valuation profession.

Market Value = Direct Comparison* = Income Approach = Cost Approach

* The IVSC refers to direct comparison of transactions as the 'market value approach'.

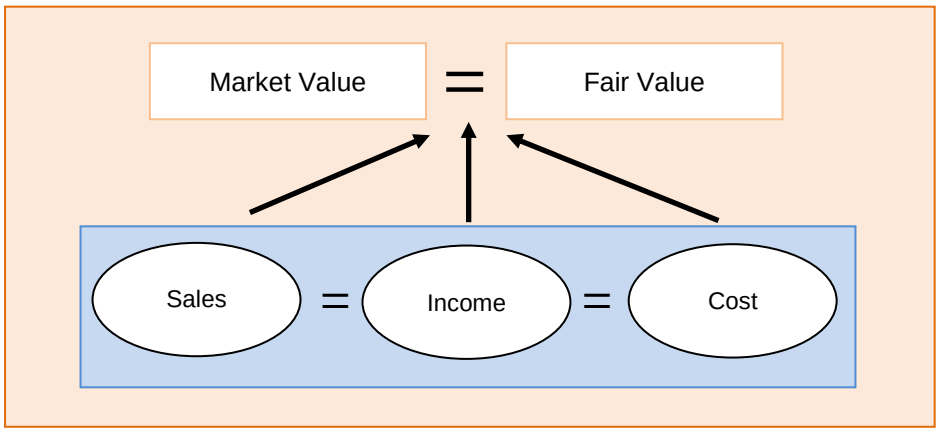
Theoretically, all valuation approaches are expected to produce the same valuation outcome, remembering that at any point in time and using the same assumptions, there can only be one market value for an asset. Each method requires different inputs but in a perfect world of full knowledge, the valuer would be able to identify all the relevant inputs for each method and arrive at exactly the same opinion of value. Because this does not happen does not mean there is more than one market value, simply the valuer has not been able identify all the relevant inputs required of each method used. In the valuation profession, it is best practice to use more than one method of valuation (back-up method) to justify your valuation. In fact, many lending institutions will insist on it.

As an example, a valuation of an office may utilise the income approach to valuation deriving a capitalisation rate (or discount rate for DCF analysis) with reference to initial yields of similar properties which have recently sold. Further, the valuer may also adopt the direct comparison approach as their back-up methodology, analysing the sale rate per square metre of the improvements for transactions of similar properties. It is most probable, at the first attempt; the two approaches will have different outcomes. **This does not mean there are two market values**, simply that one or both of the approaches adopted have not incorporated all the relevant inputs.

It then falls to the valuer to analyse further the market in an attempt to refine existing inputs or to uncover other inputs which may impact value and explain the differences. If this is ultimately not achievable, the valuer may adopt one of the valuation outcomes as the most appropriate value or make adjustments to both values to firm their opinion.

Having regard to our comments above, Liquid Pacific is of the opinion there exists no difference between the concepts of market value and fair value, and consequentially the approach to the valuation of each is identical. This leads us to the following valuation conclusion.

Fig 1. Valuation Conceptual Framework



Again, thank you for allowing us to provide our thoughts on what is a very important topic, not just for the public sector but all reporting entities. We would welcome further discussion on this matter and encourage any interested party to contact us at their convenience.

Yours faithfully

.....
Martin Burns

Director: Liquid Pacific
Chartered Valuer, RICS,
Certified Practicing Valuer, AAPI

.....
Position

LIQUID PACIFIC HOLDINGS PTY LTD A.C.N. 105 253 774
Common Seal

solutions@liquidpacific.com
©

PO Box 1411
Beenleigh QLD 4207
Australia
16 October 2019

Ian Carruthers
Chair
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Mr. Carruthers

Consultation Paper Measurement

I am pleased to make this submission on Consultation Paper - Measurement.

I have over 30 years of experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

My current position is at the Queensland Audit Office where we audit Queensland state government entities, universities and local governments.

I found the approach of including a draft exposure draft in the Consultation paper very useful. While I disagree with many of the suggestions for restructuring guidance, the approach saved a lot of time and effort by being able to identify early alternatives (e.g. of moving fulfilment requirements) that should not be pursued.

I include my detailed responses below.

I have included a list of numerous practical issues I have encountered in applying IFRS 13 in the public sector, particularly to infrastructure assets. These issues will need to be addressed if replacement cost is used for many of those assets.

Yours sincerely,

David Hardidge
https://www.linkedin.com/in/davidhardidge/

Preliminary View 1—Chapter 2 (following paragraph 2.6)
The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

I agree that the four identified measurement bases are the ones to concentrate on.

Preliminary View 2—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

While moving transaction specific material to the applicable specific standard has some appeal, sometimes the material is used by other standards. For example, the financial instrument day 1 recalibration of mark-to-model fair value to purchase price is also relevant for other valuations – e.g. property, plant and equipment when a replacement cost valuation is made immediately after construction, and the replacement costs include costs of disruption and replacing the asset in a built-up area.

The implications of possible use by other standards needs to be considered before this approach is implemented.

Preliminary View 3—Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

While moving all historical cost guidance to the one area looked appealing, I do not agree with the consequences, and I do not agree with the proposals.

Historical cost has been used for many years. Moving it to one area and changing those requirements to make it consistent is then going to change how those items are accounted for. Or at a minimum, raising questions as to whether there has been a change.

Given the desire to be consistent with IFRS, I believe the changes to historical cost should not be made, and the requirements (even if inconsistent) left as they are.

I have encountered diversity in the accounting treatment of long-term prepayments, say 10 to 20 years, and some for 99 years. I have included details in Appendix 1. I request the IPSASB to provide some guidance on this issue.

Other comments

Paragraph C15 – Currently deducts proceeds from testing. The IASB project needs to be monitored.

https://www.ifrs.org/projects/work-plan/property-plant-and-equipment-proceeds-before-intended-use/

Paragraph C21 does not look right. It currently states:

> C21. For variable rate instruments, where the asset or liability bears interest at a variable rate, the discount rate is updated to reflect changes in the variable rate.

The paragraph appears to be drafted to pick up the essentially practical expedient for floating rate notes in IFRS 9. However, the reference to 'variable rate' might also pick up instruments that have different rates for different periods, e.g. 3% for the first two years, and 5% in years 4 and 5 – in this situation the effective interest rate method covers this.

Preliminary View 4—Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

I believe that there are some gaps in the guidance. The revaluation of PPE seems to assume the replacement cost approach. In many situations of infrastructure assets, like roads this makes sense. However, we have numerous infrastructure assets in GBE's, for example electricity (generation, transmission and distribution), ports and water (generation (such as dams, recycling and desalination plants,) transmission and distribution). The GBE assets are valued on a net present value (fair value) basis in their own financial statements, and also on consolidation. My experience is that a replacement cost approach for these assets are a huge cost burden, and do not result in a value that is anywhere near the NPV value.

I believe that such assets should be valued on an NPV approach, being either fair value or something close to it. However, we have encountered many practical problems with fair valuing such assets. One major problem is related to the exit price concept and having to address the hypothetical market participant when often no such entity exists. I would like to see fair value being used, i.e. using expected cash flows from operating the asset, without the additional complexities and cost burdens of the non-existent hypothetical market participant.

While these assets are often subject to regulatory regimes and price capping, these caps are set for a maximum of five years into the future. Then estimates need to be

made of the future price caps from the end of the regulatory period for tens of years into the future.

Fair value works well with level 1 or level 2 valuations, e.g. social housing where there are markets for similar residential housing.

Other issues to resolve include:

Distinguishing between replacement cost as a measurement base and replacement cost as a method of determining fair value.

What is the difference between market value and fair value?

Preliminary View 5—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

I do not agree with the proposed changes for fulfillment value.

Fulfilment value appears to mainly (or even solely) to liabilities and provisions. Given there is already an accounting standard on accounting for provisions, I do not see the point of moving the requirements to another standard.

I found the changes very confusing, as I could not work out what was changing. I also believe there is a risk of changes that would result in differences to IFRS for no good reason. I believe fulfilment value is better left where it is. The IASB is currently conducting research as to what changes should be made to their standard given the change in their conceptual framework.

The IASB undertook some proposed changes to the provisions standard in 2005 and 2010. I have not analysed whether any of the proposed changes, and the reasons for not proceeding with the changes, are relevant to this topic. From memory, there were issues with recognising a liability for the lower of fulfilling the liability by the entity compared to transferring to a third party.

Other comments

Paragraph 4.19 currently states:

(b) For liabilities where the settlement amounts are uncertain and the timing is unknown

The wording should be whether the amounts are uncertain **or** (emphasis added) timing is unknown.

Preliminary View 6—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

I agree with the use of replacement cost as a measurement base for PPE. While we often use a form of replacement cost in determining level 3 fair values for infrastructure assets, we have to deal with exit value concepts such as the non-existent hypothetical market participant issue discussed above. The Consultation Paper's approach would mean not having to deal with issue, and using entity specific assumptions.

More guidance is required in how to apply replacement cost. I have included in Appendix 2 a list of numerous practical issues I have encountered in applying IFRS 13 in the public sector, particularly to infrastructure assets. These issues will need to be addressed if replacement cost is used for many of those assets.

Other comments

Paragraph D4 - Alternate locations – I do not agree with the guidance about having to identify alternate locations. Having to assess possible alternate locations is not useful if there are no plans to move the asset. Having to spend time on this issue is similar to the non-existent hypothetical market participant concept.

These paragraphs are inconsistent with paragraphs D25 and D26. I support the approach of paragraphs D25 and D26 not requiring unnecessary time and expense on hypotheticals.

Paragraph D12 – More guidance is needed on valuing the school as a 100 student school – do you value the gross replacement cost being for the asset that is there being a 500 student school and then adjusting for economic obsolescence to reduce the net replacement cost for a 100 student school, or do you just do one valuation and the gross replacement cost is based on a 100 student school.

Paragraph D22 – Restrictions. Australia is currently addressing issues relating to restrictions, particularly on land under public sector assets, including land under roads and land under schools. Some jurisdictions arbitrarily apply discounts because of the public sector usage, and other jurisdictions do not.

Paragraph D33 – the reference to a 300 student school is different to the earlier example of a 100 student school. Also refer to earlier comments on paragraph D12.

Paragraph D37 – Site preparation. This paragraph is confusing and appears to require the day 2 write-off of site preparation and earthwork costs by not including them in the replacement costs.

Preliminary View 7—Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalised, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

I agree with the proposals to expense borrowing costs, which is the most common approach adopted in Australia for public sector assets.

However, the guidance needs to be clearer. The guidance is not very clear on whether the replacement cost should include borrowing costs or not. The reference to using the 'instant' build (paragraph D38) seems to be a fudge to get to not including borrowing costs in the replacement cost amount. If it intended to exclude borrowing costs from the valuation, this should be clearly stated.

The guidance should specifically address service concession assets. In particular, for arrangements where the operator constructs the assets and the grantor makes known payments (the financial liability model). These arrangements have an embedded financing arrangement with borrowings specifically linked to the asset. Under Australia's service concession arrangements standard (AASB 1059), the asset is recognised as it is being constructed – not when the asset is handed over (on completion). This then means that borrowing costs are recognised and expensed during construction. This raises the issue of what is the replacement cost once the asset is completed – should it include the financing costs incurred during the construction period or not? After all, if the asset was to be replaced, presumably a similar approach to its construction (via a service concession arrangement) would be used, presumably over a similar construction period, and consequently with similar financing costs.

Preliminary View 8—Chapter 3 (following paragraph 3.36)

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

> **Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

I do not agree with the proposals to change the definition of historical costs (refer above to my comments on Preliminary View 3) because of the consequences of changing current practice and the implications for consistency with IFRS.

Preliminary View 9—Chapter 3 (following paragraph 3.42)

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Per Preliminary View 8, I do not agree with the proposals to change the definition of historical cost because of the consequences of changing current practice and the implications for consistency with IFRS.

Preliminary View 10—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

No comment

Preliminary View 11—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

No comment

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

No comment

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

No comment

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:
- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

Other comments

Diagram 4.2

What if amount changes from initial recognition date measurement date but is still certain??

Appendix 1 – Diversity for accounting for long-term prepayments

I have encountered diversity in the accounting treatment of long-term prepayments, say 10 to 20 years, and some for 99 years.

I believe that the appropriate accounting is to recognise the asset as a long-term receivable of future goods and services including a financing component.

However, I have seen other accounting policies, including those advised by large accounting firms, that uses IAS 38 with initial recognition at a discounted amount and no subsequent recognition of the financing component. This results in ridiculous outcomes. I have included two examples below.

For Example A (20 years) instead of a service expense of 1,000 pa indexed being recognised, with an additional finance income, a fixed amortisation amount of 841 is recognised as an expense per year. How is an expense of 841, being lower than even the initial starting service expense of 1,000 be appropriate accounting?

For Example B (99 years) instead of a service expense of 1,000 pa indexed being recognised, with an additional finance income, a fixed amortisation of 513 is recognised as an expense per year. An even more ridiculous outcome.

Example A (refer detailed calculations attached)

1,000 value of services in Year 1, increased by 2.5% pa for 20 years, and discounted at 4%
Initial recognition at 16,811

If recognised as receivable of a non-financial asset:

Total services expense	25,545
Total finance income	(8,734)
Net expense	16,811

If recognised as an intangible, without a significant financing component, and amortised:

Total amortisation expense	16,811

Example B (refer detailed calculations attached)

1,000 value of services in Year 1, increased by 2.5% pa for 99 years, and discounted at 4%
Initial recognition at 50,814

If recognised as receivable of a non-financial asset:

Total services expense	420,607
Total finance income	(369,793)
Net expense	50,814

If recognised as an intangible, without a significant financing component, and amortised:

Total amortisation expense	50,814

Long-term prepayments

Example A - Example of accounting for a receivable of prepaid services for 20 years

Service cost (Year 1)	1000
Inflation rate	2.50%
Discount rate	4%
NPV 20 years	16,811
Useful life	20

				Financing component recognised				Financing component NOT recognised		
	Amount	**Discount**	**Discounted Amount**	**Opening Balance**	**Financing Revenue**	**Service Expense**	**Closing Balance**	**Opening Balance**	**Amortisation Expense**	**Closing Balance**
1	1000	0.9615	961.54	16,811	672	1000	16,484	16,811	841	15,971
2	1025	0.9246	947.67	16,484	659	1025	16,118	15,971	841	15,130
3	1051	0.8890	934.34	16,118	645	1051	15,712	15,130	841	14,290
4	1077	0.8548	920.62	15,712	628	1077	15,263	14,290	841	13,449
5	1104	0.8219	907.41	15,263	611	1104	14,770	13,449	841	12,609
6	1132	0.7903	894.64	14,770	591	1132	14,229	12,609	841	11,768
7	1160	0.7599	881.50	14,229	569	1160	13,638	11,768	841	10,927
8	1189	0.7307	868.79	13,638	546	1189	12,994	10,927	841	10,087
9	1219	0.7026	856.45	12,994	520	1219	12,295	10,087	841	9,246
10	1249	0.6756	843.78	12,295	492	1249	11,538	9,246	841	8,406
11	1280	0.6496	831.46	11,538	462	1280	10,720	8,406	841	7,565
12	1312	0.6246	819.47	10,720	429	1312	9,836	7,565	841	6,725
13	1345	0.6006	807.77	9,836	393	1345	8,885	6,725	841	5,884
14	1379	0.5775	796.34	8,885	355	1379	7,861	5,884	841	5,043
15	1413	0.5553	784.59	7,861	314	1413	6,763	5,043	841	4,203
16	1448	0.5339	773.10	6,763	271	1448	5,585	4,203	841	3,362
17	1484	0.5134	761.85	5,585	223	1484	4,325	3,362	841	2,522
18	1521	0.4936	750.81	4,325	173	1521	2,977	2,522	841	1,681
19	1559	0.4746	739.97	2,977	119	1559	1,537	1,681	841	841
20	1598	0.4564	729.31	1,537	61	1598	0	841	841	0
Total	**25545**		**16811.41**		**8733.61**	**25545**			**16811.4**	

Long-term prepayments

Example of accounting for a receivable of prepaid services for 99 years

Example B

Service cost (Year 1)	1000
Inflation rate	2.50%
Discount rate	4%
NPV 99 years	50,814
Useful life	99

				Financing component recognised				Financing component NOT recognised		
	Amount	Discount	Discounted Amount	Opening Balance	Financing Revenue	Service Expense	Closing Balance	Opening Balance	Amortisation Expense	Closing Balance
1	1000	0.9615	961.54	50,814	2033	1000	51,846	50,814	513	50,300
2	1025	0.9246	947.67	51,846	2074	1025	52,895	50,300	513	49,787
3	1051	0.8890	934.34	52,895	2116	1051	53,960	49,787	513	49,274
4	1077	0.8548	920.62	53,960	2158	1077	55,041	49,274	513	48,760
5	1104	0.8219	907.41	55,041	2202	1104	56,139	48,760	513	48,247
6	1132	0.7903	894.64	56,139	2246	1132	57,252	48,247	513	47,734
7	1160	0.7599	881.50	57,252	2290	1160	58,382	47,734	513	47,221
8	1189	0.7307	868.79	58,382	2335	1189	59,529	47,221	513	46,707
9	1219	0.7026	856.45	59,529	2381	1219	60,691	46,707	513	46,194
10	1249	0.6756	843.78	60,691	2428	1249	61,870	46,194	513	45,681
11	1280	0.6496	831.46	61,870	2475	1280	63,064	45,681	513	45,168
12	1312	0.6246	819.47	63,064	2523	1312	64,275	45,168	513	44,654
13	1345	0.6006	807.77	64,275	2571	1345	65,501	44,654	513	44,141
14	1379	0.5775	796.34	65,501	2620	1379	66,742	44,141	513	43,628
15	1413	0.5553	784.59	66,742	2670	1413	67,999	43,628	513	43,115
16	1448	0.5339	773.10	67,999	2720	1448	69,270	43,115	513	42,601
17	1484	0.5134	761.85	69,270	2771	1484	70,557	42,601	513	42,088

18	1521	0.4936	750.81	70,557	2822	1521	71,859	42,088	513	41,575
19	1559	0.4746	739.97	71,859	2874	1559	73,174	41,575	513	41,061
20	1598	0.4564	729.31	73,174	2927	1598	74,503	41,061	513	40,548
21	1638	0.4388	718.81	74,503	2980	1638	75,845	40,548	513	40,035
22	1679	0.4220	708.46	75,845	3034	1679	77,200	40,035	513	39,522
23	1721	0.4057	698.26	77,200	3088	1721	78,567	39,522	513	39,008
24	1764	0.3901	688.17	78,567	3143	1764	79,945	39,008	513	38,495
25	1808	0.3751	678.21	79,945	3198	1808	81,335	38,495	513	37,982
26	1853	0.3607	668.36	81,335	3253	1853	82,736	37,982	513	37,469
27	1899	0.3468	658.60	82,736	3309	1899	84,146	37,469	513	36,955
28	1946	0.3335	648.95	84,146	3366	1946	85,566	36,955	513	36,442
29	1995	0.3207	639.70	85,566	3423	1995	86,994	36,442	513	35,929
30	2045	0.3083	630.51	86,994	3480	2045	88,428	35,929	513	35,415
31	2096	0.2965	621.38	88,428	3537	2096	89,869	35,415	513	34,902
32	2148	0.2851	612.30	89,869	3595	2148	91,316	34,902	513	34,389
33	2202	0.2741	603.56	91,316	3653	2202	92,767	34,389	513	33,876
34	2257	0.2636	594.84	92,767	3711	2257	94,221	33,876	513	33,362
35	2313	0.2534	586.15	94,221	3769	2313	95,676	33,362	513	32,849
36	2371	0.2437	577.74	95,676	3827	2371	97,132	32,849	513	32,336
37	2430	0.2343	569.34	97,132	3885	2430	98,588	32,336	513	31,823
38	2491	0.2253	561.19	98,588	3944	2491	100,040	31,823	513	31,309
39	2553	0.2166	553.03	100,040	4002	2553	101,489	31,309	513	30,796
40	2617	0.2083	545.09	101,489	4060	2617	102,931	30,796	513	30,283
41	2682	0.2003	537.15	102,931	4117	2682	104,367	30,283	513	29,769
42	2749	0.1926	529.39	104,367	4175	2749	105,792	29,769	513	29,256
43	2818	0.1852	521.80	105,792	4232	2818	107,206	29,256	513	28,743
44	2888	0.1780	514.20	107,206	4288	2888	108,606	28,743	513	28,230
45	2960	0.1712	506.75	108,606	4344	2960	109,991	28,230	513	27,716
46	3034	0.1646	499.44	109,991	4400	3034	111,356	27,716	513	27,203
47	3110	0.1583	492.26	111,356	4454	3110	112,700	27,203	513	26,690
48	3188	0.1522	485.20	112,700	4508	3188	114,020	26,690	513	26,177
49	3268	0.1463	478.24	114,020	4561	3268	115,313	26,177	513	25,663

50	3350	0.1407	471.39	115,313	4613	3350	116,576	25,663	513	25,150
51	3434	0.1353	464.62	116,576	4663	3434	117,805	25,150	513	24,637
52	3520	0.1301	457.94	117,805	4712	3520	118,997	24,637	513	24,124
53	3608	0.1251	451.34	118,997	4760	3608	120,149	24,124	513	23,610
54	3698	0.1203	444.80	120,149	4806	3698	121,257	23,610	513	23,097
55	3790	0.1157	438.33	121,257	4850	3790	122,317	23,097	513	22,584
56	3885	0.1112	432.04	122,317	4893	3885	123,325	22,584	513	22,070
57	3982	0.1069	425.80	123,325	4933	3982	124,276	22,070	513	21,557
58	4082	0.1028	419.70	124,276	4971	4082	125,165	21,557	513	21,044
59	4184	0.0989	413.64	125,165	5007	4184	125,987	21,044	513	20,531
60	4289	0.0951	407.71	125,987	5040	4289	126,738	20,531	513	20,017
61	4396	0.0914	401.81	126,738	5070	4396	127,411	20,017	513	19,504
62	4506	0.0879	396.03	127,411	5096	4506	128,002	19,504	513	18,991
63	4619	0.0845	390.34	128,002	5120	4619	128,503	18,991	513	18,478
64	4734	0.0813	384.68	128,503	5140	4734	128,909	18,478	513	17,964
65	4852	0.0781	379.10	128,909	5156	4852	129,214	17,964	513	17,451
66	4973	0.0751	373.61	129,214	5169	4973	129,409	17,451	513	16,938
67	5097	0.0722	368.20	129,409	5176	5097	129,488	16,938	513	16,424
68	5224	0.0695	362.86	129,488	5180	5224	129,444	16,424	513	15,911
69	5355	0.0668	357.65	129,444	5178	5355	129,267	15,911	513	15,398
70	5489	0.0642	352.50	129,267	5171	5489	128,948	15,398	513	14,885
71	5626	0.0617	347.40	128,948	5158	5626	128,480	14,885	513	14,371
72	5767	0.0594	342.41	128,480	5139	5767	127,853	14,371	513	13,858
73	5911	0.0571	337.46	127,853	5114	5911	127,056	13,858	513	13,345
74	6059	0.0549	332.61	127,056	5082	6059	126,079	13,345	513	12,832
75	6210	0.0528	327.79	126,079	5043	6210	124,912	12,832	513	12,318
76	6365	0.0508	323.05	124,912	4996	6365	123,543	12,318	513	11,805
77	6524	0.0488	318.38	123,543	4942	6524	121,961	11,805	513	11,292
78	6687	0.0469	313.78	121,961	4878	6687	120,153	11,292	513	10,779
79	6854	0.0451	309.25	120,153	4806	6854	118,105	10,779	513	10,265
80	7025	0.0434	304.77	118,105	4724	7025	115,804	10,265	513	9,752
81	7201	0.0417	300.39	115,804	4632	7201	113,235	9,752	513	9,239

82	7381	0.0401	296.06	113,235	4529	7381	110,384	9,239	513	8,725
83	7566	0.0386	291.81	110,384	4415	7566	107,233	8,725	513	8,212
84	7755	0.0371	287.59	107,233	4289	7755	103,767	8,212	513	7,699
85	7949	0.0357	283.45	103,767	4151	7949	99,969	7,699	513	7,186
86	8148	0.0343	279.37	99,969	3999	8148	95,820	7,186	513	6,672
87	8352	0.0330	275.35	95,820	3833	8352	91,300	6,672	513	6,159
88	8561	0.0317	271.39	91,300	3652	8561	86,391	6,159	513	5,646
89	8775	0.0305	267.47	86,391	3456	8775	81,072	5,646	513	5,133
90	8994	0.0293	263.60	81,072	3243	8994	75,321	5,133	513	4,619
91	9219	0.0282	259.81	75,321	3013	9219	69,115	4,619	513	4,106
92	9449	0.0271	256.05	69,115	2765	9449	62,430	4,106	513	3,593
93	9685	0.0261	252.35	62,430	2497	9685	55,243	3,593	513	3,079
94	9927	0.0251	248.70	55,243	2210	9927	47,525	3,079	513	2,566
95	10175	0.0241	245.11	47,525	1901	10175	39,251	2,566	513	2,053
96	10429	0.0232	241.57	39,251	1570	10429	30,392	2,053	513	1,540
97	10690	0.0223	238.09	30,392	1216	10690	20,918	1,540	513	1,026
98	10957	0.0214	234.65	20,918	837	10957	10,798	1,026	513	513
99	11231	0.0206	231.27	10,798	432	11231	-1	513	513	-0
Total	**420607**		**50813.56**		**369792.25**	**420607**			**50813.73**	

Appendix 2 - Fair value issues

While these issues were collated in relation to IFRS 13 (fair value), they will also need to be addressed under the proposed replacement cost approach.

Summary of issues:

- How do you take into account restrictions and conditions? Including land under roads, and parkland
- Treatment of borrowing costs
- Nature of component costs to include in an asset's current replacement cost (greenfield vs brownfield);
- How do you adjust for physical obsolescence?
- How do you measure physical obsolescence when the useful life of an asset is dependent on future funding?
- How do you adjust replacement cost and accumulated depreciation for economic obsolescence?
- How do you adjust for deferred maintenance?
- How do you adjust for additional functionality in the modern equivalent?
- Is there a better description to use than accumulated depreciation to represent the inclusion of obsolescence for gross PPE disclosures?
- How do you allocate the NPV to asset classes and components?
- What is the unit of account for an infrastructure asset?
- When an asset is derecognised (e.g. destroyed through flood damage), should the adjustment be derecognised through an impairment adjustment against the asset revaluation reserve or taken direct to profit or loss?
- How should damage be recognised for a revalued asset that is not lost? Should the adjustment be through the asset revaluation reserve, or taken to profit or loss?
- Peppercorn lease issues

Issue	Description
How do you take into account restrictions and conditions? Including land under roads, and parkland	See list below
Treatment of borrowing costs	Do you include an allowance for capitalisation of finance costs for the valuation of public sector assets, when finance costs are not capitalised under NFP accounting policies? Examples of long-life construction projects where financing is material is the construction of specialised buildings such as hospitals, and (soon to be required to be on-balance sheet) toll roads. While some NFP entities seem to exclude finance costs from hospital valuations, others appear to include them. It is often difficult to determine from valuations whether the valuer has included finance costs, as they may be indirectly included through on-cost margins, or builder's profit margin. If assets are self-constructed, then there will often be minimal borrowing costs as public sector departments often have no or minimal borrowings. If assets are acquired through PPP arrangements, then those arrangements will include the internal financing costs of the construction entity. Issues include: • Do you include finance costs? • What is a market participant? • What level of borrowings do you use when the owner and / or market participants have no or minimal borrowings? • When determining the level of borrowings do you exclude specific borrowings? E.g. NSW Health has borrowings in relation to PPPs. • Does the approach change depending on how the asset was acquired (e.g. self-constructed or PPP)? • Do you apply a market participant approach to how the asset might be replaced? If so, how do you determine this?

Issue	Description
	• What capitalisation rate do you use for PPP arrangements given the diversity of gearing levels (refer examples for toll roads)? • Do the above answers change at whole of government level? Governments also have different gearing levels to each other, and to the departments.
What costs (brown field vs greenfield) should be included in current replacement costs, and does the treatment cause a day 2 valuation adjustment?	Main points • While greenfield and brownfield are not defined, or used, in AASB 13, they are relevant in analysing what costs should be included as replacement costs. • The cost to initially construct an asset (greenfield costs) will be different to the cost to replace an asset (brownfield costs). For example, for roads, a replacement would not require earthworks or similar formation (greenfield) costs. Conversely, the cost to replace components of the road (e.g. seal, pavement) (brownfield costs) will be higher, for example from traffic control and diversion costs, the need to work at night at significantly higher costs of labour. • Similar issues apply for specialised buildings where components are replaced into an existing structure, often when the building is being used. • How should these different costs be accounted for? o Do you include non-recurring greenfield costs like earthworks? QAO believes that greenfield costs for non-recurring components should be included in the fair value as they were part of the cost of establishing the asset and would be part of replacing the asset's utility. If they are not included in replacement cost, how are the costs accounted for? By expensing on day 1? o Do you use brownfield costs from day 1 for the replacement cost of components to be replaced – which has the effect of revaluing upwards from the just acquired greenfield cost The adoption of brownfield costs for limited-life components (as these are the replacement costs) and greenfield rates for unlimited-life components (as these are necessary, though non-repeatable costs) can result in the sum of the parts exceeding the asset's total greenfield cost (day 1 gain). If this is the case, should a 'greenfield cap' be applied? The reasoning for a 'greenfield cap' is that the current replacement cost should be no more than the amount required to replace the asset with a substitute (paragraph B9). Paragraph 64 requires that the CRC

Issue	Description
	be calibrated to cost on initial recognition – consequently, no day 1 adjustment should be recognised. The split between greenfield and brownfield costs is also important to determine the componetisation for depreciation.
How do you adjust for physical obsolescence?	The IVSC standards, which are not available to the public for free, distinguish between incurable physical obsolescence and curable physical obsolescence. IVSC presumes a straight-line approach for incurable physical deterioration. Extract from IVS 105 paragraph 80.5 incurable physical obsolescence which considers the asset's age, expected total and remaining life where the adjustment for physical obsolescence is equivalent to the proportion of the expected total life consumed. Total expected life may be expressed in any reasonable way, including expected life in years, mileage, units produced, etc. *Condition curves and curing physical deterioration* Some have proposed that physical deterioration is based on a condition curve. Specifically, that physical deterioration may be lower at the start of the life of an asset, and higher at the end of the life of the asset. One of the arguments for this proposal is that a capital renewal project 'cures' (reverses) physical deterioration. However, this view contrasts with the IVSC reference to cure being from repairs and maintenance. Concerns on the use of condition curves include: • How are the condition ratings determined, and how can such curves be reliably measured? • How are the condition curves tailored to the entity's particular assets? • Is the cost of developing and maintaining condition curves warranted, in comparison to using straight-line which has nil additional cost as entities are already required by AASB 116 to review useful lives annually. • Are condition rating systems (e.g. a 5 point scale that can give an identical adjustment over a 10 year period if, for example, the condition rating remains at level

Issue	Description
	3 throughout that period) sufficiently robust in comparison to use of years (e.g. 100 for components with an expected life of 100 years) • If they are based on the cost to return to 'as new', does this ignore the principal of the AASB residual value decision that a recycling project does not provide a new asset, but rather an asset that consists of new and old components?
How do you measure physical obsolescence when the useful life of an asset is dependent on future funding?	For many infrastructure assets, there is an optimal point in time to undertake capital replacement / refurbishment. After that time, it becomes more costly to operate, because of increasing maintenance costs. Many public sector organisations operate in a fiscally restricted environment, when assets may not be replaced at the optimal time, but at a later point in time. This assumes that the service potential is maintained. E.g. the life of a road seal and pavement is extended by filling in potholes, rather than replacing, Consequently, the useful life of infrastructure assets will vary depending on the assessment of when they will be replaced. This may vary from year to year. How is this change in estimate recognised? For example, the optimal time to replace a road seal is in 5 years. The asset is currently 2 years old. Based on the straight-line basis of determining physical obsolescence, the remaining service potential is 3 / 5 years = 60%. At the end of the next financial year, the asset is now 3 years old, and there is currently 2 / 5 years = 40% remaining service potential. If, due to changes in the fiscal outlook, the road is now intended to be replaced after 8 years. Based on the straight-line basis of determining physical obsolescence, the remaining service potential is 5 / 8 years = 62.5%. If the gross replacement cost is $10 million, how is the change from $4 million (40%) remaining service potential to $6,250,000 (62.5%) accounted for?

Issue	Description
	Is it via an adjustment in accumulated depreciation (accumulated obsolescence)? And the revaluation reserve?
How do you adjust replacement cost and accumulated depreciation for economic obsolescence?	How do you adjust replacement cost for economic obsolescence? For example, a school, currently constructed for 800 students, would be replaced by a school for 500 students. This assumes that there has been proper assessment that the school would be replaced for 500 students, including an assessment for peak demand. The IVSC standards appear to require the valuation of a school for 800 students, and also the valuation of a school for 500 students, in order to make the IVSC suggested adjustments. This will add costs to the valuation process, when the replacement cost only needs to be determined for the 500 student school. The IVSC standards are not available to the public for free. For example, the structure component of a school building with a gross replacement cost of $2,000,000 for 800 students, is currently 10 years old with a 40 year total life. A gross replacement cost for a 500 student school would be $1,600,000. (N.B. The $1,600,000 is not proportionately 500 / 800 of $2,000,000 as some core costs are required irrespective of size). Under the IVSC approach, the gross amount of $2,000,000 for the 800 student school would be depreciated for 10/40 years = $500,000. Then the net $1,500,000 would be adjusted for economic obsolescence of something. The example in IVSC TIP2 (now withdrawn) makes assumptions using an income approach, which are not possible to adopt for most infrastructure operated by not-for-profit entities. Paragraph 64 of TIP2 states that it may be possible to make the appropriate adjustment using the cost-to-capacity method where the economic obsolescence relates to excess capacity. The cost-to-capacity method uses the difference in gross values between the existing capacity and the required capacity (replacement cost of $2,000,000 compared to $1,600,000 – reduction of $400,000 or 20% of the 800 student school). Therefore, the

Issue	Description
	adjustment for economic obsolescence would be 20% of the $1,500,000 calculated above. This gives an adjustment amount of $300,000 and a revised fair value of $1,200,000 (gross of $2,000,000 less accumulated depreciation of $800,000 being $500,000 for physical obsolescence and another $300,000 for economic obsolescence). An alternative approach, that only refers to the valuation of the 500 student school is to use the $1,600,000 gross replacement cost, and then adjust for accumulated depreciation calculated for physical deterioration of 10/40 years of $1,600,000 = $400,000. So the fair value would be $1,600,000 gross – accumulated depreciation of $400,000 = $1,200,000. Under the IVSC approach, gross replacement cost represents the utility actually acquired. Also, the IVSC views economic obsolescence as being able to be reversed and that reversals should be against accumulated depreciation rather than gross replacement cost. Should the IVSC approach, and the need for valuation of two assets be used, or can the alternative of valuing just the adjusted asset by used?
How do you adjust for deferred maintenance?	Should an adjustment be made for deferred maintenance? If deferred maintenance is adjusted for in the fair value, then is the expenditure when it is later incurred: • debited directly to PP&E (which is inconsistent with the nature of the expense), or • debited directly to repairs and maintenance expense, with a separate journal used to reflect the reversal of obsolescence by increasing the asset's value (which essentially results in two debits for a single event)?
How do you adjust for additional functionality in the modern equivalent?	AASB 13 and IVS 105 do not adequately deal with the modern substitute having more features (and higher costs) than the current asset. In particular, including higher standard fire systems, air-conditioning, lifts, and disabled access.

Issue	Description
	Current replacement cost is required to reflect the cost of a substitute asset with comparable utility. One view is that if the modern reference asset has greater utility than the existing asset, then the replacement cost should be reduced to reflect the functionality that does not exist in the exiting asset. It is acknowledged that cost data pre-adjustment for excess utility is highly useful for asset management (budgeting) purposes, and should be recorded as a separate field in the entity's asset management system. However, accounting standards only allow utility that has actually been acquired to be recognised as an asset. Recognition of assets that the entity would like to have, but has not actually acquired, is not appropriate. For example, if the quality (and cost) of fire protection systems improve the day after a building is commissioned, (one view is that) it is not appropriate to write-up the gross value and depreciation expense to reflect the additional cost of utility that doesn't exist and that the entity hasn't paid for. While this will result in funded depreciation being insufficient to replace the asset, it is no different to the fact that all new capital needs to be funded from other sources. It is challenging to measure the required adjustment when current cost data is unavailable for the level of service provided by assets possessing outdated technology, design, materials etc. Can guidance be provided on how to measure the adjustment for the difference in cost between the service levels provided by recently constructed assets and service levels provided by older generation assets?
Is there a better description to use than accumulated depreciation to represent the inclusion of obsolescence for gross PPE disclosures? (Issue 9)	Main points: • Queensland Treasury, like other Treasury departments, requires the gross approach for revaluations using current replacement cost under AASB116.35(a). Most local governments and other entities also use this approach. • This approach, consistent with common practice, reflects the cost to replace the asset with a new version that provides comparable service levels (gross value),

Issue	Description
	and the net amount reflects the asset in its used condition. • This approach, consistent with common practice, uses the term accumulated depreciation (and not obsolescence) to represent adjustments for various forms of obsolescence. • AASB 13 and the IVSC standards are written in terms of the end result, being a net fair value amount. They are not written to meet the gross disclosures and related requirements. However, in practice: o Current replacement cost can only be derived by firstly measuring a gross replacement cost. Gross replacement cost is one of the inputs required for calculating the adjustment for obsolescence. o The gross amount is also required for linking to asset management strategies and plans. • Therefore, use of the gross approach for revaluations is logical and adds value for asset classes measured using current replacement cost. Is there a better description to use than accumulated depreciation to represent the inclusion of obsolescence for gross PPE disclosures?
How do you allocate the NPV to asset classes and components	Many of our for-profit public sector entities (i.e. government controlled corporations (GOCs) / government business enterprises (GBEs)) revalue their PPE infrastructure assets to fair value using the income based-approach (NPV). We have the following practical issues: *Determining the fair value of components for depreciation* The income approach uses NPV for the whole asset, not individual classes or components.

Issue	Description
	After determining a single fair value amount for the group of infrastructure assets, we then need to allocate the fair value (NPV value) of the group to asset classes/components in order to determine depreciation. How is this done on a practical basis to asset classes such as land, channels, wharves, and plant & equipment? Some entities allocate the total revaluation increment/decrement in proportion to the carrying value of each separate item in the asset register. However, over time these amounts may no longer be reflective of the fair values of the components. It may also be argued that land which is integral to a network should be revalued separately if its market value as an individual asset is higher than its original cost price plus its share of subsequent revaluation increments/decrements for the network, and that any remaining increment/decrement should then be allocated to the remaining assets in proportion to their carrying values. Some entities obtain current replacement cost valuations as these often arrive at a value for each asset. However, these valuations are very expensive to obtain. Also, they usually determine a value higher than fair value determined using the income-based-approach. This then creates a need for an “impairment overlay” to reduce the current replacement cost down to the NPV. Judgement is often applied to determine how to allocate the “impairment overlay”. Sometimes it is applied proportionately based on current replacement cost. Sometimes it is applied proportionately after excluding land. Sometimes it is applied to a residual asset, such as channels. This then raises the question of whether the valuation provided useful information and whether the money spent on the current replacement cost valuation was value for money. We would like a more economical way to reliably measure the fair value split by asset class. *Modern equivalent not economical*

Issue	Description
	In some cases, the modern equivalent is too expensive to replace. For example, a channel with the modern equivalent requiring dumping the dirt onshore, not offshore. If the asset would not be replaced by a modern equivalent, how should these items be treated? If they are included in the valuation at replacement cost of a modern equivalent, they result in what many would regard as an over-weighting in that particular asset category. If the current replacement cost is not included, what value is included? *Allocation to components when NPV determined using market participant expectations* An NPV determined using the income-based approach and market participant expectations permits the inclusion of future capital expansion, and the consequent future cash inflow increases. How do you allocate the NPV to asset classes / components when part of the NPV includes future capital expenditure for assets that do not currently exist? Similarly, how do you treat work-in-progress for capital expenditure on projects partly complete, but the cash flows are included in the NPV?
What is the unit of account for an infrastructure asset?	While this issue may be argued to be for AASB 116 and not for AASB 13, it is a common issue in the public sector. We are seeking resolution through the Fair Value Panel, or otherwise (e.g. through a reference to IFRIC.) A for-profit electricity distributor has multiple supply networks containing powerlines or underground power cables (i.e. poles and wires), substations and transformers. The main supply network is subject to a "price cap". It also has some power generators for the supply networks in regional areas. The distributor charges a regulated tariff for generation and distribution of electricity in those regional areas. As the cost of generating and distributing electricity in those regional areas is greater than the regulated tariff, the distributor receives "Community Service Obligation" payments to achieve a commercial return. AASB 116 does not prescribe the unit of account. Approaches observed include: • Option 1 – Some entities treat each identifiable part (such as a pole, a substation, a segment of powerlines) in their asset register as a separate asset and use this

Issue	Description
	as the unit of account. This is typically the level at which acquisitions and depreciation are recorded in the asset register. • Option 2 – Some entities treat the group of property, plant and equipment that generate the cash flow (the regulated revenue cap) as the unit of account. For impairment purposes, as a for-profit entity, a whole of company valuation (potentially allocated into multiple cash generating units) would be undertaken to include any corporate assets. For those purposes, the unit of account for AASB 136 would be the applicable assets (and liabilities) of the CGUs representing the whole of the company.
When an asset is derecognised (e.g. destroyed through flood damage), should the adjustment be derecognised through an impairment adjustment against the asset revaluation reserve or taken direct to profit or loss?	Similar to the previous issue, we are seeking resolution through the Fair Value Panel, or otherwise (e.g. through a reference to IFRIC.) There is diversity in practice as to how the derecognition of individual assets or components is recognised when the assets have been revalued. Some people recognise the loss of an asset (e.g. for flood damage) by derecognising the asset through profit and loss, even if there is a related asset revaluation reserve (Approach 1). Others derecognise the asset by first reducing the related asset revaluation reserve on the basis that there is first an impairment loss and then recognise a nil gain/loss on disposal (approach 2) This issue is also linked to the unit of account issue above, as there may be different outcomes depending on how the unit of account is determined.]
How should damage be recognised for a revalued asset that is not lost? Should the adjustment be through the asset revaluation reserve, or taken to profit or loss?	Similar to the previous issue, we are seeking resolution through the Fair Value Panel, or otherwise (e.g. through a reference to IFRIC.). Most people recognise the adjustment through the revaluation reserve. However, this treatment is often inconsistent with the treatment of lost assets. Issues include • Can you distinguish easily between the complete loss of an asset and an asset that has obsolescence due to damage but can still be used in some capacity for some period of time? For example, the pavement component of a gravel road will

Issue	Description
	often be instantly washed away during a flood, while a sealed road will usually continue to be used after a flood until a capital rehabilitation project occurs at some point prior to the NDRRA cut-off, which can be three years later. As the seal and pavement components of the sealed road still exist and are still being used, it could be argued that they have experienced a valuation loss rather than a physical existence loss, • If you can distinguish between loss and damage, should there be different accounting? • Should an expense be recognised for derecognition, when it appears similar to an impairment, when the impairment standard no longer applies to specialised assets valued at current replacement cost? • If the asset revaluation reserve is to be adjusted for a disposal, this would be similar to prorating the disposal of an asset under AASB 116.70. A disposal would be similar to the concepts used for each new addition of for each part of a larger asset that has been replaced (AASB 116.70) and each significant part requiring separate depreciation (AASB 116.43)
Peppercorn lease issues	See list below

Restrictions and conditions

The following discussion assumes that the guidance in the standard on restrictions and conditions has been applied correctly – i.e. the restriction or condition is a characteristic of the asset and cannot be voluntary removed by the owner.

We find diversity in the application of discounts for restrictions and conditions for:

- Land under roads
- Land under rail (rail corridor)
- Land under water (including canals)
- Parks and reserves
- Universities and specific use
- Trust land - Land held in trust for specific use (e.g. aboriginal communities), and is not freehold, and cannot be sold

How are these discounts determined? They appear to be arbitrary (see table below). How can they be compared to observable data, or otherwise verified? Diversity in application of discounts can often result in material differences in valuations when changing from one valuer to another.

The following provides

- Practical issues with land under roads
- Example - land under rail (rail corridor)
- Practical issues with land under water (canals)
- Example of land under water (continental shelf)
- Published discounts for restrictions

Practical issues with land under roads

Valuation approaches

Valuation approaches for land under roads include:

- Englobo undeveloped land values (prices that would be difficult to obtain in an urban environment)
- Englobo ready to build land values
- Discounts for restrictions on the above

Queensland

In Queensland, when a road is declared, the title is extinguished and ownership reverts to the state represented by the Department of Natural Resources and Mines, in accordance with Queensland Government policy.

This generally also includes land under roads maintained by local councils.

In the Department of Natural Resources and Mines financial report, land under roads is included as an administered item.

When the entity administering the land under roads undertakes a valuation, should it regard the land under roads as:

- having a restriction (because it does not control the classification as land under road), or
- not having a restriction (because another entity controlled by the parent does control the classification as land under road).

When the entity valuing the land under roads determines replacement cost, does it value the land under roads based on the restriction (if any), or does it value the land based on what it would cost to replace the land on a greenfield basis (i.e. at market prices without the restrictions)? Is the greenfields amount based on undeveloped land, or ready to build?

Do the answers above change between the entity administering the land under roads (e.g. Department of Natural Resources and Mines) and whole of government?

Example - land under rail (rail corridor)

Extract from Queensland Rail 2016 Annual Report

> *Land*
> The *Transport Infrastructure Act 1994* stipulates that the consolidated entity only retains ownership of its non-corridor land. As such, only non-corridor land is recorded in these accounts. Ownership of corridor land remains with the Department of Natural Resources and Mines on behalf of the State. This land is leased to the Department of Transport and Main Roads and subsequently sub-leased to the consolidated entity for no cost.
>
> The sub-lease term is for an initial term of 100 years with a renewal option for an additional 100 years.

Practical issues with land under water (canals)

Some Queensland local councils have land under water, i.e. the land under canals and lakes. For example, Gold Coast has numerous lakes and more than 400 kilometres of constructed canals.

Canals are often treated like roads – with canals being transferred to the state as a public waterway. Again, similar to roads, Councils will have basically the same maintenance responsibilities irrespective of whether the council owns the land or the state owns the land. These responsibilities include maintaining the revetment wall, dredging activities, water quality monitoring and might include shark control programs.

Given the similarity to roads, the approach is to include on balance sheet the canal earthworks and accompanying infrastructure the council is required to maintain. For land under canals, the argument is that given the lack of ability to dispose of the land under canals, and the similarity of responsibilities whether or not the council owns the legal title to the land, that the land under water not be recognised (or recognised at a nominal amount).

Often the land under canals, and the initial canal infrastructure, is contributed by land developers. The argument is that councils would not replace the asset if it was using its own money.

Because the canal systems may also serve as buffers against flooding, the above argument is a bit more complicated.

Example of land under water (continental shelf)

Example from New South Wales

> Auditor-General's Report to Parliament 2010 Volume Nine
> Land and Property Management Authority
> http://www.audit.nsw.gov.au/ArticleDocuments/187/05_Vol_9_2010_Land_and_Proprty.pdf.aspx?Embed=Y
>
> The Authority's property, plant and equipment balance at 30 June 2010 was $6.2 billion. This includes $0.7 million and $5.3 billion of tenured and untenured Crown land respectively. Untenured Crown Land includes the continental shelf within the Three Nautical Mile Zone valued at $359 million.

Published discounts for restrictions

The following was published in "Fair value measurement of non-financial physical assets" by the Valuer-General Victoria (July 2015)

6 Guidance for valuers

6.1 Community service obligations (CSO)

6.1.1 CSO definition

CSO is an adjustment for the difference in value between unrestricted assets (e.g. freehold land) and assets held by the public sector, taking into account any legal, financial or physical restrictions imposed on the use or sale of the asset (e.g. restricted land due to a legal restraint).

Examples of assets that are subject to CSO are Crown land in a public use zone and iconic property restricted by legal, physical and financial constraints that would make it difficult to sell on the open market; or, where the constraints would affect the achievable value.

6.1.2 Application of CSO

FRD 103F and AASB 13 require land to be valued having regard to a HBU, taking into account any legal, financial or physical restrictions imposed on the use or sale of the asset. When there are restrictions on the use or disposal of the asset and there are restrictions on the alternative use, the land should be valued at the fair value for its current (existing) use, i.e. the value considering the HBU excluding the cost of achieving that value (e.g. creating a freehold title, rezoning, or overcoming the political or social constraints of an asset) considering the legal, financial and physical constraints.

The CSO adjustment is a reflection of the valuer's assessment on the impact of restrictions associated with an asset to the extent that is also applicable to market participants. CSO is the difference between the hypothetical unencumbered fair value based on market evidence (i.e. HBU value without any restrictions) and the value ascribed to the asset based on its current use (existing value restricted by constraints). As the adjustments of CSO are considered significant unobservable inputs, specialised land would be classified as level 3 inputs.

6.1.3 CSO considerations

Valuers are expected to apply levels of value that are relative to the use and restriction of the land. The factors valuers use to adjust land values for CSO depends on the legal, financial and physical constraints applicable on the land.

The amount of adjustment applicable to each asset and portfolio depends on the risk factors associated with the property or portfolio and the likelihood that the entity would be able to sell the asset in the open market.

It should be noted that any CSO allowance reflects among other things the community's attitudes and the government's policy of the day.

6.1.4 Examples of CSO ranges

The table below provides examples of the ranges, in percentage, for the valuers to consider when determining the rate for the property they value. The adjustment factors are based on VGV's extensive experience in assessing property valuations for government, on the results of court and tribunal decisions within Australia and on the limited sales evidence available. In all cases, the range of adjustment

factors relate to the potential risks in achieving a rezoning of government held property assets, taking into account the economic, physical and political circumstances.
VGV provides the suggested adjustment factors and guidance to valuers, as required, to provide consistent assessment of similar assets across the State of Victoria.

Table 1 – Examples of possible adjustments for CSO

Type of asset	Appropriate CSO range (%)	
Land zoned residential, industrial, commercial etc. without government restrictions	0	0
Crown land – no planning or other restrictions	10	20
Hospitals, schools	20	30
Public housing in public use zone	20	30
Schools, TAFE colleges, universities	20	30
Arts centres/national galleries	30	40
State parks	60	70
Shrine of Remembrance, Government House	60	70
Water authorities (reservoirs, dams etc.)		90
Cemeteries		95

Peppercorn lease issues

What is the market participant?

What is the market participant for a peppercorn lease to a not-for-profit entity?

In relation to land, do you use commercial market rates that would be paid by a for-profit entity, even though the peppercorn rental arrangements would not be made available to a for-profit entity, or do you use the rent that a not-for-profit entity could afford to pay which is usually not very much? Do you consider some sort of deprival value notion, i.e., that if the not-for-profit had to pay commercial rates, it would not continue to operate, or alternatively, it will only operate and provide services if paying a peppercorn lease rental?

Additional complications arise when having to consider the nature of restrictions and conditions on peppercorn leases or assets of a specialised nature.

Some peppercorn leases are deliberately set at nil, because if they were set at a higher rate, then the NFP lessee would have to raise prices to recover the lease cost, or use valuable funding for lease rentals instead of providing services.

Fair value for lease with early termination rights

What is the fair value of a right-to-use asset under a 99 year lease when the lessor has the right to terminate the lease with no penalty on two years notice?

A market participant (i.e. not a related party) would not assume a 99 year term. Specifically, they would only value the right as being for two years use, or potentially with some risk adjusted premium on the understanding that the lessor would not terminate the lease immediately.

Lessors do kick out lessees, even if previously friendly relationships, for example Monash University with Mimotopes and a special purpose centre:

http://www.theaustralian.com.au/higher-education/monash-university-drives-out-mimotopes-cancer-firm/news-story/18fc769b6eb4ba96f7c95c746088b68e

http://www.abc.net.au/news/2017-03-30/monash-university-hand-mimotopes-centre-eviction-notice/8400094

IFRIC is currently considering the lease term for such arrangements, though an exit price approach is likely to arrive at a different term than the IFRIC decision.

Contingent rent and fair value

What is the fair value of a peppercorn lease with contingent rent?

If the fair value is based on fixed rent, and then the lease liability for the minimum payments (possibly nil) are deducted, large upfront revenue would be recognised. Such accounting would not reflect the actual agreement, as the entity has not earned that revenue – as it will have to pay some of it in the future through future contingent rentals.

An example is rent of 10% of sale for a kiosk concession on crown land.

Another example is that the lessee pays rental equal to the cost of maintaining the building each year.

For example:

Queensland Performing Arts Trust 2017

Note 18 SERVICES AND ASSETS PROVIDED TO THE TRUST

Arts Queensland, through the Department of Premier and Cabinet, owns and maintains the Performing Arts Centre premises on behalf of the State of Queensland. The Trust is provided with the use of the building and items of fi tout, including certain items of plant and equipment that are not performance related, by way of a service level agreement with the Corporate Administration Agency (CAA). As described in note 3(b) the Trust pays rent below fair value for the use of premises in the Cultural Precinct.

Finance leases

Queensland have something called DOGIT leases (Deeds of Grant in Trust). The land is held in trust for specific use (e.g. aboriginal communities), and is not freehold, and cannot be sold.

Some peppercorn leases are already on balance sheet. For example finance leases. This includes DOGIT land for aboriginal communities and DOGIT land for grammar schools and universities.

Examples of valuation

The DOGIT land for aboriginal communities is valued at a $1, as it cannot be sold, or used for anything else. The same $1 value is used whether or not the land is unimproved, or improved (e.g. graded in order to construct a house).

I am currently pursuing the following other valuation examples:

- DOGIT land held by grammar schools and universities, and the adjustments for restrictions and conditions applied
- The Queensland Performing Arts Trust recognises a contribution for rental received at below fair value – refer above for the amount of rent that they do pay. I am following up to determine how fair value was determined.

  Queensland Performing Arts Trust 2017 (see above)
  Note 3 Grants and Contributions
  The Trust has received a contribution in the amount of $7.660 million (2016: $7.716 million) from Arts Queensland equal to the amount of rent below fair value charged by Arts Queensland for the use of the premises by the Trust in the Cultural Precinct.

I have seen references to fair value of peppercorn leases being determined by comparable market rentals. However, they have been compared to for-profit entities. As noted above, I have questioned whether this approach is appropriate if the rental is given for NFP purposes and the public benefit.

Other

In addition to the examples I have already provided, other practical difficulties include:

- hospitals sharing facilities with medical research institutions on a collaborative basis.

Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

CNOCP
Conseil de normalisation des comptes publics

LE PRÉSIDENT

139, rue de Bercy
75573 PARIS Cedex 12
FRANCE
Phone: + 33 1 53 44 22 80
E-mail: **michel.prada@finances.gouv.fr**

Paris, October 17, 2019

Mr John Stanford
Technical director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
Toronto
Ontario M5V 3H2 CANADA

Re: Response to Consultation Paper *Measurement*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Consultation Paper *Measurement* published in April 2019 (the CP).

The CNoCP thanks the IPSAS Board for pulling together guidance on various Measurement bases, especially as it is inclusive of historical cost as well as fair value. We trust that a future standard built on this foundation would be a relevant and most useful addition to the suite of IPSASs. It bridges the gap between the Conceptual Framework that elaborates on measurement objectives on the one hand, and individual standards that provide requirements as to what measurement basis should be retained on the other hand. In addition, the future standard on Measurement will include definitions of measurement bases that are pervasive across standards, which will increase internal consistency. We also take that opportunity to emphasise the importance of historical cost measurement basis to reflect faithfully most operations specific to the public sector.

As far as the process is concerned, we believe that presenting for public consultation a CP together with an illustrative exposure draft (ED) truly helps constituents. We fully agree with the objective that the project is not intended to bring modifications to the use of measurement bases in individual standards. However, because the ED is only illustrative, we do not propose detailed comments to

CNOCP
Conseil de normalisation des comptes publics

a full extent. For instance, at this stage of the project, we did not assess to what extent relocating guidance from individual standards to the future standard on Measurement would bring about unintended consequences on measurement requirements in individual standards.

On a more detailed level, we agree with the accounting treatment proposed for borrowing costs and globally with that retained for transaction costs. We believe they ensure pragmatic application and are consistent with most current practices in our jurisdiction.

However, we would like to bring to your attention the following concerns that were raised during the course of our analysis of the proposals. Firstly, we think that the selection of measurement bases could be more comprehensive and the rationale for retaining those bases more robust. For instance, value in use seems an appropriate candidate for application guidance in the future standard as it is currently used as a reference in several individual standards. Conversely, other measurement bases such as cost of fulfilment are only mentioned in the Conceptual Framework.

We would also advise that the difference between market value and fair value should be investigated as part of the project on Measurement, with only consequences dealt with within the future project on the limited review of the Conceptual Framework.

Finally, we are of the view that the decision trees in diagrams 4.1 and 4.2 are very useful: they enlighten the reader as to how to understand the references to cost of services, operational capacity and financial capacity. Still, at this stage, those diagrams would benefit from further work, for instance on the relationship between replacement cost and fair value.

Responses to the detailed questions set out in the CP are presented in the appendix.

Yours sincerely,

Michel Prada

CNOCP
Conseil de normalisation des comptes publics

APPENDIX

Preliminary View 1

The IPSASB's Preliminary View is that fair value, fulfillment value, historical cost and replacement cost require additional application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

The CNoCP agrees that additional application guidance as to how to apply measurement bases in the IPSAS suite of standards is useful and welcomes the efforts put in the Measurement project.

1. Ensuring overall consistency of the approach proposed in the Consultation Paper

However, to ensure the overall consistency of the approach proposed in the CP, we would suggest that the rationale for retaining some measurement bases over others should be better explained.

For instance, the CP refers to value in use as a measurement basis that would not need application guidance to be included in the future standard on Measurement. The reason stated[1] is that specific guidance currently exists in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*. Also, as value in use applies to specific transactions, it would not be considered generic measurement which is the primary target of the future IPSAS on Measurement.

However, one could argue that firstly, value in use is listed as a measurement basis in the Conceptual Framework[2]. Secondly, value in use is extensively described in IPSAS 21 and IPSAS 26[3] as an alternative measurement basis to fair value for determining the recoverable amount using several approaches as appropriate. In that respect, methods to measure fair value and value in use can be similar (for instance the use of discounted cash flows), but still provide different outcomes. Lastly, impairment is a major component of the cost model[4] as set out in IPSAS 17, *Property, Plant and Equipment* and in IPSAS 31, *Intangible Assets*.

---

1 See footnote 14 on page 16 of the Consultation Paper (CP).

2 See Conceptual Framework, section on Measurement bases for assets in paragraphs 7.58-68.

3 See IPSAS 21.44-49 and IPSAS 26.43-70.

4 See IPSAS 17.42-81: under the cost model, "*an item of property, plant and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses*".

Because value in use is an alternative to fair value in measuring the recoverable amount of a potentially impaired asset subsequently measured using the cost model, incorporating the related existing guidance in IPSAS 21 and IPSAS 26 would be more consistent with the inclusion of guidance on both historical cost (appendix C) and fair value (appendix A). Additionally, bringing together in one same standard guidance on how to measure value in use of a non-cash generating asset and value in use of a cash generating asset would help conveying the idea that service potential, measurable to some extent, is a critical feature of public sector accounting specificities, as underlined in paragraph 14 of the Preface to the Conceptual Framework.

2. Increasing consistency between the Conceptual Framework and individual standards

When considering whether the list of measurement bases in the CP is complete, the CNoCP noted that a number of measurement bases listed in the Measurement section of the Conceptual Framework were never actually referred to within the individual standards. This is specifically the case for net selling price, cost of release and assumption price. We therefore question if those measurement bases should be retained in the Conceptual Framework.

Conversely, should those measurement bases be alternative bases as per the diagrams[5] for the choice of subsequent measurement bases for assets and liabilities, they should be clearly labelled as such and included in the future standard on measurement with some application guidance. From a practical viewpoint, based on the fact that the diagrams mention alternative bases, the future standard on measurement would prove more comprehensive if it listed measurement bases and their alternate choices. This would highly increase the relevance of such a standard for preparers.

With respect to market value, defined in the Conceptual Framework, we observe that the term is used in some instances in IPSAS 17 as well as in several other standards. Market value is also widely used in the System of National Accounts (SNA)/Government Finance Statistics Accounts Manual (GFSM), alongside fair value, but seemingly with somewhat different meanings. For the sake of consistency with GFS on the one side and with IFRSs on the other side, either with a view to align or to explain why departure is necessary, differences should be carefully reviewed. Ensuring consistency on this specific topic would better be addressed in the Measurement project, with any consequences affecting the Conceptual Framework.

[5] See diagrams 4.1 and 4.2 in CP on pages 38 and 41.

Preliminary View 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

First of all, we agree that the definitions of all measurement bases referred to in individual IPSASs should be located in one same overall standard on Measurement.

We also welcome that application guidance is proposed in the form of an overall standard that fills the gap between the Conceptual Framework and individual standards. The future standard on measurement would be a useful addition to the IPSAS suite of standards, all the more that, contrary to IFRS 13 *Fair Value Measurement*, it is designed to cover the generic measurement bases used in the public sector.

However, selecting measurement bases depending on whether they are generic in nature may create gaps in the development of application guidance that could be useful to preparers. Exactly how generic a measurement basis is may be rather subjective. In addition, setting-up an exhaustive list of measurement bases might prove complex, for instance in drawing a line between measurement bases and measurement techniques. For the future standard to be fully operational, we would therefore recommend that measurement bases that are mentioned throughout the standards should be listed, with a clear rationale as to why application guidance is not deemed necessary in some instances. From a practical standpoint, as well as in the public interest, this is especially true of measurement bases that could illustrate alternative measurement bases as identified in the decision tree for the choice of the subsequent measurement basis in diagrams 4.1 and 4.2.

Preliminary View 3

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

At the CP stage of the process, in the absence of a census of measurement bases, it seems difficult to assess whether application guidance is complete. We did not explore to what extent relocating guidance might have consequences on the measurement requirements in individual standards.

In addition, as mentioned above, perceived inconsistencies exist between the Conceptual Framework, individual IPSAS standards and GFS. As a consequence, we would rather wait for an overall more comprehensive document before we assess each and every application guidance.

Preliminary View 4

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

As far as fair value guidance is concerned, the reference above to the need for a more comprehensive overall context is all the more critical that there is a perceived tension with the use of market value as a standalone measurement basis. This is a reason why the difference between the two terms, if any, and the related consequences should be explored as part of the CP phase rather than during the limited review of the Conceptual Framework.

Other than the general comment above, we would not comment on an application guidance drawn from IFRS 13 for those elements that are measured using fair value in accordance with the relevant IPSAS, where fair value meets the same definition as in the private sector.

Preliminary View 5

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

As a general preliminary comment, a quick review of the Handbook published in 2018 shows that cost of fulfilment is only mentioned in the Conceptual Framework. Unless we're mistaken, no current standard seems to require measuring liabilities using cost of fulfilment. It is therefore somewhat uncomfortable to comment on application guidance for that measurement basis.

In addition, we note that IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* requires that liabilities should be measured at "best estimate"[6] or present value. As a consequence, we would recommend that the IPSASB should elaborate on how cost of fulfilment would articulate with "best estimate". We are wondering whether the proposed change is only to update the terminology and definition or if it might bring unintended consequences.

Preliminary View 6

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

We observe that replacement cost is used in several occasions in the suite of IPSAS standards, for instance as follows:

- In IPSAS 12, current replacement cost is defined as "*the cost the entity would incur to acquire the asset on the reporting date*"[7];

[6] See IPSAS 19.44-45: best estimate is "the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time".

[7] See IPSAS 12.9.

- IPSAS 17[8] refers to depreciated replacement cost as an estimation of fair value in the case of specialised buildings measured using the revaluation model. Incidentally, the question of the distinction between a measurement model and a measurement basis could also be raised here;
- IPSAS 21[9] also uses a reference to depreciated replacement cost, though more as an approach, to measure "*the present value of the remaining service potential of an asset*.";
- In the Conceptual Framework, it is further described as a surrogate[10] for value in use in those cases where expected cash flows are inappropriate.

Based on the above observation, replacement cost could be perceived as a subset of fair value. We would therefore question whether it is relevant to discuss replacement cost in a standalone appendix. In that line of thoughts, we note that IFRS 13[11] refers to replacement cost as a valuation technique to measure fair value. Conversely, the decision tree in diagram 4.1 indicates that replacement cost is to be selected for assets that are held for their operational capacities; hence, replacement cost is considered different from fair value that would be selected for assets that are held for their financial capacities. We would therefore recommend that the IPSAS Board decide whether replacement cost should be related to fair value; if it should, we would be grateful that the Board elaborate on the consequences, especially with respect to the decision trees. We believe that it is critical to resolve that perceived inconsistency before an opinion can be formed on the merits of Appendix D.

Another issue that arises from the above finding is that, should replacement cost be considered a fair value-type of measurement, then one could argue that the distinction between operational and financial capacities is somehow conceptually flawed and practically not helpful. We would appreciate if the IPSAS Board could tackle this additional concern.

Preliminary View 7

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

---

8 See IPSAS 17.47.

9 See IPSAS 21.45.

10 See Conceptual Framework paragraph 7.67.

11 See IFRS 13.B8.

If not, please state which option you support and provide your reasons for supporting that option.

We believe that the proposed solution is sound and simple in the public sector.

The proposed accounting treatment is consistent with the way borrowing costs are accounted for at central government level in France. At local public authority level, borrowings are decided on a general basis and cannot be allocated to specific investments. Therefore, calculating a relevant figure for borrowing costs would be challenging.

The proposed accounting treatment that departs from IAS 23, however raises the issue of consistency where public sector entities report under IPSASs and are controlled by an entity that reports under IFRSs, or where a public sector entity controls an entity that establishes its separate financial statements under IFRSs.

Preliminary View 8

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

> **Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Overall, the proposed definition seems operational and in line with current practices in France.

We would recommend that, given that the definition mentions "costs that are directly attributable to the acquisition", transaction costs and costs directly attributable to an asset as described in IPSAS 17.30-36A should be better articulated, either in the future standard or in IPSAS 17.

Preliminary View 9

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

CNOCP
Conseil de normalisation des comptes publics

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

While we view the accounting for transaction costs as very specific and ancillary to the future measurement standard, we believe that it is still helpful for preparers and users that they are addressed as a cross-cutting issue within the Measurement standard.

Preliminary View 10 and Preliminary View 11

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- *Excluded in the valuation of liabilities measured at fulfillment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Included in the valuation of assets measured at historical cost and replacement cost.*

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:

- *Included in the valuation of liabilities measured at fulfillment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Excluded in the valuation of assets measured at historical cost and replacement cost.*

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

We welcome the proposal that ensures consistency between entering and exiting a transaction, as well as internal consistency within a measurement basis. However, we would encourage the Board to further explain why transaction costs should be excluded from exit value measurement.

As evidenced in our response to PV6, replacement cost seems to be considered a current value measurement basis. In that respect, because the proposed accounting treatment for transaction costs for assets measured using historical cost is the same as that for assets measured using replacement cost, we would recommend that the future requirements elaborate on the consequences. To be more specific, a difference may arise in the accounting treatments for two same assets A and B, where asset A is measured at replacement cost used as a proxy for fair value and fair value is used to measure asset B. Under the current proposal, transaction costs would then be excluded from the valuation of asset B, while included in the valuation of asset A.

CNOCP
Conseil de normalisation des comptes publics

Specific Matter for Comment 1

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

In line with our assessment of the list of measurement bases in our response to PV1, we feel uncomfortable to assess the completeness of the list of definitions in the Illustrative ED. However, the list of definitions is quite a long one, which we believe may not be a good indication for a practical and easy implementation of requirements.

As far as the list of definitions is concerned, we would question why the "cost model" is not defined when the "cost approach" is, even more so that both notions refer to cost. In addition, as discussed in our response to PV6, "cost model" is a historical cost-based measure, where "cost approach" could be related to current value. It would also be helpful either to explain in what a valuation technique is different from a valuation model, or else to use the same term to avoid confusion.

Moreover, some definitions include a reference to the timing of measurement that varies depending on the measurement basis: for instance, "*at the measurement date*" for fair value and "*at the time of its acquisition or development*" for historical cost. Such differences could be perceived as bringing in inconsistency, all the more as the CP does not specifically refer separately to measurement at initial recognition on the one hand and to subsequent measurement on the other hand.

Specific Matter for Comment 2

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

With respect to the concepts of equitable value and of synergistic value, though of potential interest, we believe that it is premature at this stage to include them in the future Measurement standard. More specifically, because no individual standard currently refers to those notions, including them would only bring about complexity in the public sector that, in some jurisdictions, might lack the immediate resources to fully grasp the concepts.

Specific Matter for Comment 3

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- *The Conceptual Framework Measurement Objective;*
- *Reducing unnecessary differences with GFS;*
- *Reducing unnecessary differences with IFRS Standards; and*
- *Improving consistency across IPSAS.*

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

The diagrams help understanding the distinction between operational capacity and financial capacity and the consequences on the choice of the subsequent measurement bases.

We also think that a useful addition to the diagrams could be to address measurement upon initial recognition.

As we find the diagrams useful, we believe that their locations could be discussed; they could either be added to the future standard, even though its objective is not to decide of the best measurement basis, or included within the Conceptual Framework to illustrate how to use operational and financial capacities.



Comments on IPSASB Consultation Paper: Measurement

Contact Details

Name: John Vessey

L10, Majestic Centre, 100 Willis St
PO Box 12 003, Wellington 6144
New Zealand

Telephone: +64 4 471 7000
Mobile: +64 27 4495 604

Document Details:

Date: 30 September 2019
Reference: 5-C1000
Status: Final

Prepared By

John Vessey
Technical Principal Valuation

Approved for Release By

Wayne Hatcher

Technical Director Asset Management

©WSP Opus 30-09-2019

Preliminary View 1—Chapter 2 (following paragraph 2.6)
The IPSASB's Preliminary View fair value, fulfillment value, historical cost and replacement cost require additional application guidance.
Do you agree with the IPSASB's Preliminary View? Yes
If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Preliminary View 2—Chapter 2 (following paragraph 2.6)
The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.
Do you agree with the IPSASB's Preliminary View? Yes
If not, please provide your reasons, and state what guidance should be included, and why.

Preliminary View 3—Chapter 2 (following paragraph 2.10)
The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.
Do you agree with the IPSASB's Preliminary View? No
If not, please provide your reasons, stating clearly what you consider needs to be changed.

The currents standards require a specialised asset to be accounted for using a single approach ie either historic cost or replacement cost. I believe there is a case to use a combination of HC and RC for some assets. For example, consider a national highway network asset. Such an asset is currently valued using RC methodology for all components. The earthworks to create the corridor profile and platform on which the road pavement sits, is a never repeated, one-off cost. It accounts for a very large proportion of the total cost of construction. For the New Zealand State Highway, it represents 36% of the construction price. In addition, there are numerous other one-off costs involved in the original corridor construction. The cost of renewing a highway asset is usually less costly than when the highway is originally constructed. Professional fees are generally much higher and then there is the cost spent on third party assets, either relocating them or restoring them. These costs never reoccur when the depreciable components of the highway undergo ongoing renewal. For the New Zealand State Highway network, these other one-off costs account for another 10% to 15% of the total construction cost. The combined proportion of non-depreciable costs can be close to 50% of the total construction cost.

I propose that these costs should be financially recorded at Historic Cost while the renewable portion of the highway asset is valued using the standard Replacement Cost methodology. Under the current standards, there is much confusion on how these costs should be treated in financial accounts and funded in an equitable way. An alternative solution would be to provide more guidance about what constitutes an item of property, plant and equipment in IPSAS 17 Property, Plant and Equipment, and to highlight that some components of assets may be recognized as separate items and accounted for separately. This may be something for the IPSASB to consider in its infrastructure assets project.

Separating the non-repeat cost in this way would simplify the funding side. These one-off costs could be equitably financed by a longterm interest only loan with interest cost treated as opx. The other assets can be equitably renewed by fully funding replacement cost depreciation.

Preliminary View 4—Chapter 2 (following paragraph 2.16)
The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View? Yes
If not, please provide your reasons, stating clearly what you consider needs to be changed.

©WSP Opus 30-09-2019

Preliminary View 5—Chapter 2 (following paragraph 2.28)
The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View? Yes
If not, please provide your reasons, stating clearly what you consider needs to be changed.

I feel more guidance /discussion is required on Demolition & Disposal. When asset replacement occurs in the same exact location, then demolition and disposal of the previous asset is accounted for in the replacement cost of the new asset. An example would be renewal of road pavement where the existing asset is milled prior to placement of the new. These milling costs become part of the replacement cost of the new pavement.

In many circumstances the replacement asset is located elsewhere, for example when a bridge is replaced, it is common to realign the road so construction can occur while the existing asset can continue to be used. Demolition and disposal of the existing road/bridge is generally not part of the replacement contract and not included as part of the replacement cost of the new asset. However, the liability for the demolition and disposal of the old asset remains. I presume that this would fall into this category of fulfilment value.

From an intergenerational equity perspective, that liability should fall to the users of that facility, not the users of the new facility. Hence that fulfilment liability needs to be accounted for when the old asset is in use and not wait until the new asset is in use.

Again, this may be an issue worth exploring as part of the IPSASB's infrastructure assets project.

Preliminary View 6—Chapter 2 (following paragraph 2.28)
The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View? No
If not, please provide your reasons, stating clearly what you consider needs to be changed.

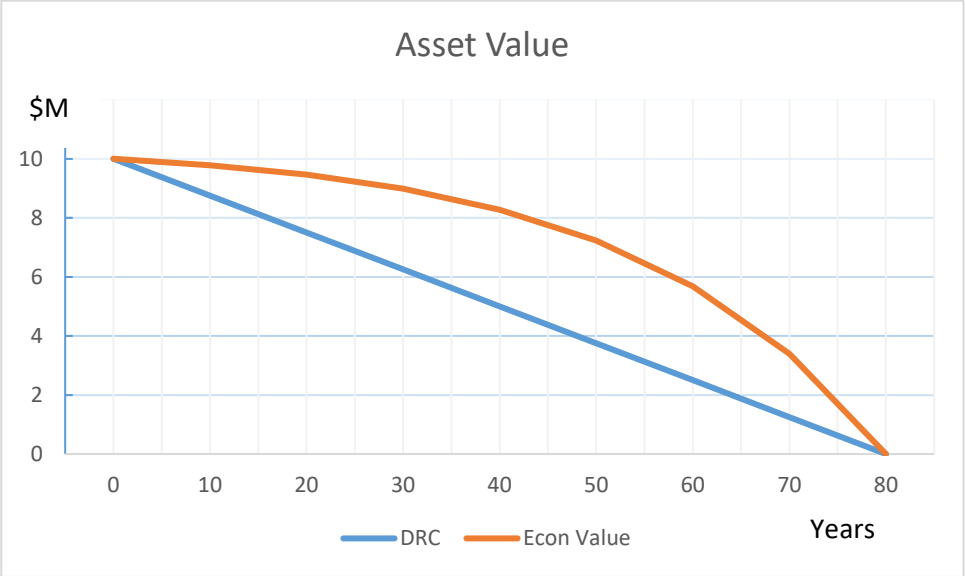
Section D30 - Depreciated Replacement Cost

Replacement cost is defined as the cost to replace the service potential of an asset. In other words, the entry cost or cost to construct. The cost-based value at any time during its lifecycle is given by the replacement cost less deductions for depreciation. This is called the depreciated replacement cost. The depreciation for infrastructure assets is invariably straight line and represents an accounting allocation of the depreciable costs over the life of the asset. Unfortunately, the accounting depreciated replacement cost can be significantly different from the entry value of an asset except when the asset is brand new.

I will demonstrate this with a simple example. Take a specialised asset, a bridge. It has a construction cost of $10M and is 35 years old. The average total life for such a structure is say 80 years and therefore has an expected remaining life of 45 years. The DRC of the bridge is $10M x 45/80 = $5.625M. The entry cost for purchasing the 35 year old bridge should take into account the expected timing of expenditures rather than the cumulative accounting depreciation. In this instance the value is the cost of a new bridge less the difference in present value cost of bringing forward the purchase of a replacement from 80 years time to 45 years time. Assuming a net discount rate of 4%, the entry cost of the 35 year old bridge is RC_0$ – (RC_{45}$ - RC_{80}$) = $10M (1 - 0.171 + 0.043) = $8.7M. The two values are significantly different.

The difference between Depreciated Replacement Cost (DRC) and the Economic Value is illustrated on the following diagram.

©WSP Opus 30-09-2019



The entry value for for someone purchasing the asset partway through its lifecycle is best repreresented by its economic value, not depreciated replacement cost. What I am proposing here is an alternative measure of fair value for a specialised asset.

Section D38 – Phasing of Work

This section states that the value of a modern equivalent asset that had been developed in phases, should assume that construction happened instantly. I do not agree with this statement. When it comes to constructing say a passenger terminal at an airport, the terminal is generally constructed in phases as demand grows. Optimisation is all about minimising the full lifecycle costs. Constructing the full sized terminal at year zero would have a lower construction cost because it is built in a greenfield situation whereas the increments have a much higher cost because construction occurs in a brownfield situation. Yet the present value cost of incrementally extending the building to match passenger growth over time will likely be lower than the upfront cost of a single phase building. Requiring an incrementally grown asset to be valued as a single point build, would result in a significant writedown in the value of capital spend each time a new increment is added.

This section also states that no allowance should be made for holding cost (the cost of capital over the duration of construction). This is because construction is assumed to occur instantaneously. This is an unrealistic requirement. Holding costs are real and occur in all efficient construction markets.

Section D40 – Contract Variations

This section states that additional construction costs because of design or specification changes should be ignored. This does not seem right. Those changes are most probably made to improve the asset level of service. It would be entirely appropriate to include the value added by these changes.

Preliminary View 7—Chapter 3 (following paragraph 3.28)
The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.
Do you agree with the IPSASB's Preliminary View? No
If not, please state which option you support and provide your reasons for supporting that option.

The cost of capital expenditure over the construction period (i.e up until the asset becomes operational) should be capitalised into the value of the asset. From a valuer's perspective, the cost

©WSP Opus 30-09-2019

of holding capital" over the duration of construction has a real opportunity value. That capital could be used elsewhere to generate revenues or benefits. Diverting this capital to construction of a specific asset deprives the entity those other benefits. This loss of benefit is termed "opportunity cost" and should be fully reflected in the capital value of the constructed asset.

Once the asset becomes operational the debt servicing cost becomes an operating expense.

Holding costs during construction has opportunity value regardless of whether the agency is a public benefit entity or private business. The value of this cost depends on the discount rate which in turn depends on the agency's risk profile and asset type. For Public Sector agencies the opportunity cost should take into account the duration of construction and the social opportunity cost of capital for the public sector agency.

Preliminary View 8—Chapter 3 (following paragraph 3.36)
The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.
Do you agree with the IPSASB's Preliminary View? Yes
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Preliminary View 9—Chapter 3 (following paragraph 3.42)
The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.
Do you agree with the IPSASB's Preliminary View? Yes
If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Preliminary View 10—Chapter 3 (following paragraph 3.54)
The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View? Yes
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Preliminary View 11—Chapter 3 (following paragraph 3.54)
The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View? Yes
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)
Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.
Do you agree that the list of definitions is exhaustive? Yes
If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

©WSP Opus 30-09-2019

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct? Yes
Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)? Yes

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)
Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:
- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS. Yes

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

©WSP Opus 30-09-2019

wsp | OPUS

www.wsp-opus.co.nz

APV Valuers & Asset Management

Submission

IPSASB Measurement Consultation Paper

David Edgerton FCPA
Director
david@apv.net

(Head Office)
Queensland
Level 18
344 Queen Street
Brisbane QLD 4000
p (07) 3221 3499
f (07) 3221 8409

New South Wales
Goldfields House
Suite 3 Level 21
1 Alfred Street
Sydney NSW 2000
p (02) 8231 6499
f (07) 3221 8409

South Australia
Level 3
97 Pirie Street
Adelaide SA 5000
p (08) 8311 3949
f (07) 3221 8409

Western Australia
Suite 83
50 St Georges Terrace
Perth WA 6000
p (08) 6323 2338
f (07) 3221 8409

www.apv.net

Table of contents

About APV 3
Preliminary Views 4
Preliminary View 1—Chapter 2 (following paragraph 2.6) 4
Preliminary View 2—Chapter 2 (following paragraph 2.6) 4
Preliminary View 3—Chapter 2 (following paragraph 2.10) 5
Preliminary View 4—Chapter 2 (following paragraph 2.16) 5
Preliminary View 5—Chapter 2 (following paragraph 2.28) 5
Preliminary View 6—Chapter 2 (following paragraph 2.28) 5
Preliminary View 7—Chapter 3 (following paragraph 3.28) 7
Preliminary View 8—Chapter 3 (following paragraph 3.36) 7
Preliminary View 9—Chapter 3 (following paragraph 3.42) 7
Preliminary View 10—Chapter 3 (following paragraph 3.54) 8
Preliminary View 11—Chapter 3 (following paragraph 3.54) 8
Specific Maters 8
Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29) 8
Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5) 8
Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21) 9
Contacts 10

About APV







What we do

APV provides specialist valuation, asset management and asset accounting services for a wide range of organisations and sectors. We enjoy close partnerships with our clients across Australia, including hundreds of local councils, state government agencies, manufacturing and transportation businesses, universities and not-for-profit organisations.

Our services include:

- Fair Value valuations: land, buildings, plant, equipment, roads, water, sewerage
- Asset accounting: valuation and depreciation methodologies, compliance reviews
- Asset management: asset management frameworks, plans and systems
- Customised training and professional development: asset accounting and asset management.

As leaders in our field, we are proud of our unblemished record of audit approval. However, uncompromising quality is simply our starting point: *we deliver more than just figures*. We tailor our services to meet client needs, helping them get the most from their assets and plan effectively for the future.

And while valuation and depreciation can be complex, we keep it simple. We're constantly evolving to offer customers more flexibility and control. We use leading methodologies and custom-built valuation tools that are compliant, comprehensive, logical and truly relevant.

Preliminary Views

Preliminary View 1—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View fair value, fulfillment value, historical cost and replacement cost require additional application guidance.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

APV agrees that additional application guidance is required. We note the vast inconsistencies that have evolved in Australia especially with respect to the 'cost approach' under Fair Value and the valuation of public sector specific assets such as restricted land.

These inconsistencies have recently been partly addressed by the AASB's special project for Fair Value in the public sector. Despite the effort involved and guidance issued by the AASB some jurisdictions, and of great concern some Auditors-General, seem unwilling to accept that their interpretations need to change because they are not consistent with AASB guidance.

For this reason, we strongly recommend additional guidance be developed via liaison with the AASB and very experienced practitioners who are in the best position to identify the types of interpretations that are commonly made inconsistently across different jurisdictions.

Preliminary View 2—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

APV agrees that a central measurement standard should provide generic guidance (similar to IFRS13) with specific guidance provided in individual standards as required.

The most likely standard to be impacted will be IPSAS17 or the proposed infrastructure and heritage standards. It is important that address the range of issues covered by the AASB special project for Fair Value in the public sector.

Likewise, it is important that they address the various depreciation expense related questions that APV has requested guidance on fro the IPSASB over the past 18 months. It is worth noting that the IPSASB was unable to provide definitive answers or feedback to those questions. As such it is critical that such guidance be developed and included in the relevant standard.

Preliminary View 3—Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

APV agrees.

Preliminary View 4—Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

APV agrees.

Preliminary View 5—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

APV agrees.

Preliminary View 6—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

APV generally agrees but has specific comments as follows –

D3 & D13

We believe D3 and D13 are erroneous due to 'condition' and 'asset specification' being included in the wrong paragraphs. Under the standard we first need to determine the Replacement Cost and then based on relevant factors assess the remaining service potential to determine the Depreciated Replacement Cost.

The ‘condition’ of the asset is relevant to the determination of the ‘Depreciated Replacement Cost” and not the ‘Replacement Cost’. Likewise the ‘specification’ of the asset is relevant to the determination of the ‘Replacement Cost’ not the ‘DRC’. I.e. Two identical assets used in the same way will have the same replacement cost irrespective of their condition. If one is a far worse condition than the other the Depreciated Replacement Cost would be expected to be lower.

The ‘condition’ of the asset should be moved to D13 and the ‘specification’ of the asset should be moved from D13 to D3.

D12

Agree with the comment. However, believe additional comment needs to e added to clarify that if the decrease in capacity is expected to be temporary (i.e. school numbers are expected be 500 again in 10 year) that the replacement cost should be determined based on 500 students.

D22

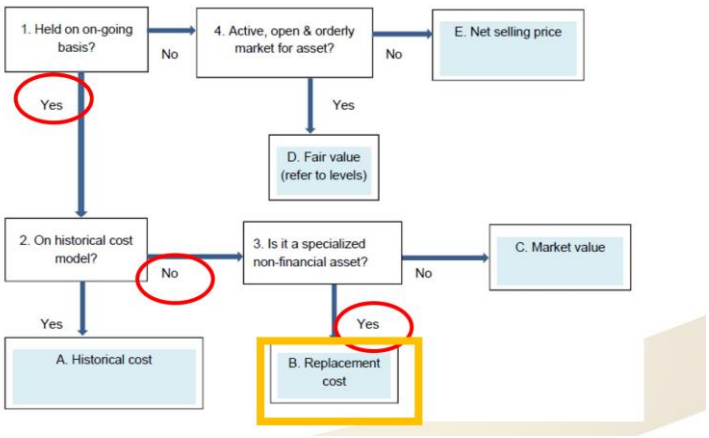
We agree with the comment however believe that this paragraph is either not required or needs to be enhanced to ensure there is no ambiguity. i.e. Confirm that the value is the full un-discounted cost of its replacement cost.

For many this paragraph will convey a belief that because the land is used as parkland that the value needs to be discounted from a market value of what it would cost the government to purchase the land.

This issue was recently considered by the AASB which concluded that the value of such land should be based on its replacement value and as the government would need to pay a full market price to obtain such land the replacement cost is the amount paid.

Under the proposed IPSASB framework such land would also be valued using DRC as it is held on an on-going basis, not held at historical cost and is specialized in nature as it is restricted for specific use and is not land held in freehold title.

Under both IFRS and IPSAS restricted land such as parkland should be valued at the full market rate that the government would need to pay in order for its acquisition.



D30 Difference between depreciation expense and Depreciation for valuation

While the standard highlights the need to adjust the replacement cost for the impact of obsolescence to determine the DRC it fails to highlight (as done in both IFRS and IVSC) standards that depreciation for financial reporting purposes (depreciation expense) is conceptual different from obsolescence (or depreciation) for valuation purposes.

Especially for highly material infrastructure assets that experience regular renewal there is no link between depreciation expense and the asset value. The value needs to be based on the assessment of the various obsolescence types and in the case of physical obsolescence includes asset condition.

We suggest paragraph D30 be enhanced to clarify that depreciation for financial reporting is conceptually different and not linked in any way to the assessment of the DRC.

Preliminary View 7—Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.
Do you agree with the IPSASB's Preliminary View?
If not, please state which option you support and provide your reasons for supporting that option.

APV agrees but notes that such practice may result in the financial statements of some smaller entities providing information that could easily be misconstrued as representing a true and fair picture of the financial performance.

Preliminary View 8—Chapter 3 (following paragraph 3.36)

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows: Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

APV agrees.

Preliminary View 9—Chapter 3 (following paragraph 3.42)

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

APV agrees.

Preliminary View 10—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

APV agrees.

Preliminary View 11—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

APV agrees.

Specific Maters

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.
Do you agree that the list of definitions is exhaustive?
If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

APV agrees.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?
Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

APV notes -

- There is no definition of Depreciated Replacement Cost
- The definition of Replacement Cost could be incorrectly construed as being the definition of Depreciated Replacement Cost. We recommend stating clearly that one is prior to adjustment for obsolescence and one is after the adjustment for obsolescence.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:
- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.
If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

APV agrees.



David Edgerton FCPA 30 Sept 2019
Director
APV Valuers and Asset Management
E: David@apv.net
Mob: 0412 033 845

Contacts

Alfio Ponticello
Managing Director
alf@apv.net
(07) 3221 3499

David Edgerton
Director
david@apv.net
0412 633 845

BRISBANE (Head Office)
Level 18, 344 Queen Street
BRISBANE QLD 4000
(07) 3221 3499

SYDNEY
Level 2 50 York St
SYDNEY NSW 2000
(02) 8231 6499

ADELAIDE
97 Pirie St
ADELAIDE SA 5000
(08) 8311 3949

PERTH
Suite 83
50 St Georges Terrace
Perth WA 6000
(08) 6323 2338

ABN: 236 984 72195
Website: www.apv.net
Email: admin@apv.net

Comments and suggestions on the IPSASB Consultation Paper "Measurement"

Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII

The IPSASB has requested comments and answers to specific questions regarding its Measurement Project. The comments and responses prepared by the Task Force IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are presented below.

The IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 18 researchers from these networks. The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the Institutions/Universities with which they are affiliated.

Core assumptions

We are of the opinion that Public Financial Management (PFM), in its broadest sense, is the system by which public financial resources are planned, managed and controlled. Furthermore, the PFM system is the foundation on which the accountability of public sector entities, both external and internal, is built to enable and influence the efficient and effective delivery of public service outcomes and to discharge accountability towards citizens. In our view, PFM is paramount for accountability and should support the stewardship and decision-making functions, which are both subordinated. We recognize the pivotal role of the IPSASB in developing high quality international public sector accounting standards to support financial reporting and to enhance non-financial disclosure by public sector entities to increase citizens' trust.

We are of the opinion that, in general, public sector entities require public sector specific principles and standards that properly address and accommodate public sector specificities. As such, when public sector transactions resemble those taking place in the private sector, principles and standards may be kept as aligned as possible. However, for public-sector-specific transactions, we are in favour of standards that are not adapted artificially from private sector accounting and we think there is a need to seek options that best fit the public sector. This core thesis underpins our proposals and recommendations within which we have sought to embed issues raised in academic works.

General comments on the Consultation Paper "Measurement"

We wish to state from the outset that it is not clear why the IPSASB considers it necessary to issue an IPSAS on measurement, rather than carry out an extensive review of Chapter 7 of the Conceptual Framework. "The Conceptual Framework establishes the concepts that underpin financial reporting, which the IPSASB applies in developing IPSAS" (par. 1, Consultation Paper – Measurement). The rationale of the Measurement Project is that "measurement requirements in IPSAS should be amended to better align them with the Conceptual Framework's measurement concepts" (par. 3). The project should "focus primarily on developing guidance that is widely applicable and can be broadly applied throughout the IPSAS suite of standards" (par. 4). **So why not start with the Conceptual Framework and elaborate on the measurement concepts by providing better guidance?** In other words, the Conceptual Framework Scope Review that is proposed in pars. 17-19 of the Consultation Paper (page 12) should incorporate changes to the Measurement Chapter 7 according to the feedback received on this Consultation Paper. The Conceptual Framework could be supported with Reporting Practice Guidelines (RPGs) especially in view of the technicality involved with certain valuation techniques.

The Conceptual Framework should be complete in a way that the standards can be derived from it and that all standards are in line with it. Thus, the Conceptual Framework should be revised, resulting in a complete list of measures and a coherent measurement/valuation theory, to which the individual standards refer. This technique would ensure that the Conceptual Framework provides a robust foundation and contributes to the coherence of the IPSAS system. This procedure would prove to be a superior alternative to the development and release of a new standard that could (see below) include deviations as ad hoc exemptions from the Conceptual Framework, raising doubts whether the IPSAS represent a kind of patchwork carpet rather than a system.

The IPSASB's Conceptual Framework refers to the possibility of further work at standards level in order to better align the chapter on measurement (Chapter 7) with the IASB's standard on fair value (BC7.28). If this is the underlying reason for this 'exhaustive' consultation paper on measurement, perhaps the IPSASB should first carry out amendments to Chapter 7 of the Conceptual Framework in order to illustrate the concept of measurement in general and to guide users accordingly; and then re-consider the necessity to issue a standard that only deals with fair value. In this way, the Conceptual Framework can function as a conceptual underpinning by affecting future standards (Ellwood and Newberry, 2016)[1]. Our responses below reflect this position.

In our opinion, the IPSASB should revise the Conceptual Framework rather than issue a specific

[1] Ellwood, S. and Newberry, S. (2016). The conceptual underpinnings of international public sector accounting. *Public Money & Management*, 36(3), 231-234

IPSAS on measurement. However, should the IPSASB still choose to issue an **IPSAS** on measurement, it should **revise the title** to clarify that it only covers the **measurement of assets and liabilities**. The consultation paper focuses on the valuation of assets and liabilities, which values are to be included in the statement of financial position. It does not deal with measurement of income and expenses because these elements are being covered in other consultation papers. The title of the ED/proposed standard should clearly state that it only deals with measurement of assets and liabilities. This clarification is important because the relevance of the balance sheet for accountability and decision making varies across types of public sector entities.

Indeed, it can be argued that measuring of assets and liabilities is interrelated to income/revenue and expense as changes in assets or liabilities influence surplus or deficit of a period. This argument supports the static view of accounting that focuses on balance sheet valuations at a certain point in time. This notion is important for entities that are profit-driven but is not suitable for public sector entities (Anthony, 1978[2]; Mautz, 1981[3]; Pallot, 1992[4]; Zavattaro & Anessi Pessina, 1994[5]; Biondi, 2012[6], 2016[7]). For governmental-type units, that perhaps do not generate any income at all, or whose only source of income would be from non-exchange transactions, the value of the statement of financial position diminishes; in the sense that there is no relationship between assets in the balance sheet, the ability to generate revenue and the valuation of the entity per se. A balance sheet focus is inconsistent with the specificities of public financial management (Biondi, 2018)[8]. The operational and financial capacities of governmental-type units are assessed through their sovereign powers to raise taxes and collect fees, which would not be linked with any balance sheet item.

[2] Anthony, N.R. (1978). *Financial accounting in non-business organizations. An exploratory study of conceptual issues, research report*. Norwalk, CT: Financial Accounting Standards Board.

[3] Mautz, R.K. (1981). Financial reporting: Should government emulate business? *Journal of Accountancy*, *August*, 53–60.

[4] Pallot, J. (1992). Elements of a theoretical framework for public sector accounting. *Accounting, Auditing & Accountability Journal*, 5 (1), 38–59.

[5] Zavattaro, F., & Anessi Pessina, E. (1994). Prime riflessioni sui sistemi di contabilità economica nel servizio sanitario nazionale [First insights on systems of accrual accounting for national health system]. MECOSAN, *10*, 8–11.

[6] Biondi, Y. (2012). Should Business and Non-Business Accounting Be Different? A Comparative Perspective Applied to the New French Governmental Accounting Standards. *International Journal of Public Administration*, Volume 35, Issue 9, pages 603-619

[7] Biondi, Y. (2016). Governmental Accounting and Austerity Policies: Accounting Representations of Public Debt and Deficit in Europe and Abroad. *Accounting Forum*, Vol. 40, pp. 89-105.

[8] Biondi, Y. (2018). The Financial Sustainability Conundrum in Central Government. *Accounting, Economics and Law*. Doi: 10.1515/ael-2018-0003

Preliminary View 1—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that fair value, fulfillment value, historical cost and replacement cost require additional application guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Response:

In our opinion, additional application guidance is required for all measurement bases identified in the Conceptual Framework (refer to Figure 2.1), and not only for the most commonly used ones. The exclusion of certain measurement bases is not justified by this reasoning. Furthermore, by only considering the measurement bases used in past IPSAS, the result may once again be standards that only represent adaptations of IFRS and not standards that better reflect public sector features.

Fulfillment value, historical cost and replacement cost are already identified in the Conceptual Framework, with the details as described in Chapter 1 of this consultation paper.

Only fair value presents an issue because it is not mentioned in the Conceptual Framework as a measurement basis. The latter only deals with market value, reflecting the position of the IPSASB at the time that it was not in favour of an exit value-based definition of fair value. A similar reluctance was demonstrated by the UK's Financial Reporting Advisory Board (FRAB) in 2011, and the adoption of IFRS 13 to public sector tangible fixed assets featured during discussions until it was decided to apply IFRS 13 only to surplus assets, that is, those intended for sale on which there were no restrictions on sale (Hodges, 2016)[9]. This restricted use of fair value reflects how uncomfortable FRAB and the UK Treasury were with an extensive application of fair value. Still, it is proving difficult to classify assets in this way. The application of fair value to assets held for continuing use in the public sector represents a particularly difficult example of the 'estimation' of market value on which fair value is based.

Measurement of gains and losses in the valuation of assets, and differences between IPSAS and Government Finance Statistics (GFS), notably with respect to GFS' existing treatment of gains and losses (which are recognized as other economic flows) should be addressed in the guidance. However, we wish to emphasise that fundamental issues are raised by the application of fair value in public sector accountability. It is not just a matter of technical guidance, but conceptual incoherence with the public sector's specific missions and mode of functioning. We refer to case

[9] Hodges, R. (2016). The conundrum of fair value measurement-evidence from the UK FRAB. *Public Money & Management*, 36(3), 227-230

studies on the French and UK Governmental Accounting elaborated in the literature (Biondi, 2012, 2016), which clearly showed the issues raised by a balance sheet approach and especially by fair value measurements in public sector entities. We also emphasise the problems raised by fair value and mark-to-market measurements in public debt assets and liabilities, for instance, imagine a government booking gains from: (a) the market devaluation of its current bond market price due to increasingly worrying perceptions of its risk of default; or (b) from revaluation on heritage and other non-available-for-sale assets.

We agree, therefore, that **additional application guidance is required for fair value**, and also that the confusion with market value should be clearly and concretely addressed. "Current value", "fair value" and "market value" are often used inter-changeably and their relationship to each other needs to be clarified (with a preference for consistently using one term for any given meaning) (Dabbicco, 2018[10]).

"Value in use" is another measurement basis that requires additional application guidelines[11]. Even though it applies specifically to impairment, it is still a measurement basis that is also included in the Conceptual Framework. If the IPSAS on Measurement (and/or the amended Conceptual Framework chapter) is to be comprehensive and exhaustive, then it should also include other measurement bases like "net realizable value" and "net selling price", which are specific to inventories. The same applies to the "recoverable value" principle.

The **distinction** between a **measurement basis** and a **measurement technique** is not very clear (please refer to our response to SMC1). For example, par. 4.15(b) of the consultation paper (page 40) refers to "net realizable value" as a measurement basis. But Appendix C refers to it as a measurement technique. The same applies to "amortized cost". Perhaps Appendix C should provide additional application guidance with regards to valuation techniques, like, "net realizable value" and "amortized cost".

[10] Dabbicco, G. (2018). A comparison of debt measures in fiscal statistics and public sector financial statements, *Public Money & Management*, 38(7).
[11] Again, in this context, only value in use from asset productive deployment (not from its marketability) should be included.

Preliminary View 2—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

Response:

Based on our response to PV 1, we find that, while the application guidance should be generic in nature, it should be provided for **all** measurement bases (and valuation techniques) that are mentioned in the IPSAS suite of standards, and not only for the most commonly used ones. Moreover, the IPSASB should be careful to develop guidance and new standards that better reflect public sector features, and not just adaptations of IFRS. Thus, the IPSASB should look beyond the measurement bases mentioned in IPSAS, and should also consider measurement practices developed by individual countries. Such governmental accounting practices would have been developed based on experience and would reflect how the difficulties of application in practice have been dealt with (see, for example, the UK case when dealing with fair value measurement [Hodges, 2016]).

In this way, the application guidance provided shall be exhaustive and practical. The individual IPSAS can then provide more specific guidelines in the form of examples from practice.

Preliminary View 3—Chapter 2 (following paragraph 2.10)

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:

First of all, we wish to point out that the exercise of compiling Appendix C should assist the IPSASB to **update Chapter 7** of the Conceptual Framework in a comprehensive manner.

Appendix C is compiled by copying extracts from the Conceptual Frameworks of the IPSASB and the IASB, and from IPSAS 12, 16, 17 and 31. The guidance included in this appendix applies to a variety of assets, including inventory, investments, PPE, intangibles, and financial instruments.

It is a matter of opinion as to how helpful such a hotchpotch of information can be to users of the standards. In our opinion, the information copied from the individual IPSAS should not be deleted from the particular standards (as suggested in par. 2.10, Page 18) because this may result in the individual IPSAS not being so helpful as they would refer the user to yet another standard. Such **cross-referencing** from one source to another may put off the user and **reduce understandability**.

The guidance in Appendix C should be extended to also apply to **liabilities** because short-term payables (example, most trade payables) may be measured at the original invoice amount if the effect of discounting is not material. Furthermore, with respect to fulfilment of liabilities, B20 (Page 75) states that "an entity need not discount the value of the future outflow of resources if the entity expects the obligation to be settled within one year". Historical cost is acceptable for measuring short-term liabilities[12]. Longer term debts and similar obligations would represent more difficult measurement issues.

[12] We draw your attention to an apparent inconsistency in footnote 38 to Appendix C, which states that "This application guidance focuses on historical cost for assets, because the consultation paper's flow chart for liability measurement indicates that historical cost is not applicable to the measurement of liabilities". Diagram 4.2 (page 41) clearly shows that historical cost is the baseline measurement basis for all liabilities, provided that the settlement amount is certain and the timing is known.

Preliminary View 4—Chapter 2 (following paragraph 2.16)

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:
As stated in the introduction to our responses, the IPSASB should consider issuing an IPSAS on Fair Value instead of this proposed IPSAS on Measurement. If the IPSASB proceeds with an IPSAS on Measurement, it should consider issuing a **separate IPSAS on Fair Value**. The particular implications of the use of fair value merit a separate standard so that it is not confused with other measurement bases, since it raises unaddressed issues when applied in general and especially to public sector entities. Furthermore, Appendix A is the section of the proposed IPSAS that contains new information that has not been dealt with in other IPSAS (or has been dealt with, but requires clarification so as not to be confused with "market value").

As already highlighted in our answer to PV 1, the UK has encountered practical difficulties when attempting to meld the requirements of IFRS 13 to suit the public sector context (Biondi 2016). Hodges (2016) describes the difficulties encountered by the FRAB when attempting to adapt the requirements of IFRS 13 to make it applicable to the public sector context. The UK Treasury found it necessary to amend its Financial Reporting Manual to limit the use of fair value measurement.

More generally, the application of fair value in a public sector context creates particular difficulties in its application to non-financial assets and to liabilities where there is no direct evidence of a market price from which fair value should be determined. Such difficulties seem to be compounded because IFRS 13 does not always distinguish clearly between '**measurement'**, which requires an observable attribute, and '**estimation'**, which relies upon a subjective extrapolation from observable data (Barker and McGeachin, 2013)[13]. In circumstances where there is no active market for the precise type of assets or liabilities being 'measured', the fair value approach may rely upon a hypothetical valuation, which does not exist and does not represent the institutional reality of public sector bodies (for a private sector perspective see Barker and Schulte, 2017)[14]. If there are problems with IFRS 13 in the private sector, the prospects of its application in a public sector setting are not very encouraging.

[13] Barker, R. and McGeachin, A. (2013). Why is there inconsistency in accounting for liabilities in IFRS? An analysis of recognition, measurement and conservatism, *Accounting & Business Research*, 43(6), 579-604.
[14] Barker, R. and Schulte, S. (2017). Representing the market perspective: Fair value measurement for non-financial assets, *Accounting, Organizations & Society*, 56, 55-67.

The following are some examples in Appendix A that may present difficulties (in the sense that they would present a series of bones of contention when attempting to apply them to the public sector context):

a) A18 – "A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its *highest and best use* …". It is argued that the highest and best use for a non-financial asset in the public sector may be social and/or cultural and may not even involve economic benefits. This problem is acknowledged by the IPSASB (par. 2.23, page 20).
In addition, the interpretation of the market participants' perspective, through which "highest and best use" is determined, could be influenced by political reasons. Such situations may lead to fictitious values being used under Fair Value measurement (Barker and Schulte, 2017).

b) A21 – requires an entity to measure the fair value of a non-financial asset assuming its highest and best use by market participants even if the entity does not intend to use the asset according to its highest and best use. We believe that this may be a rather misleading way to value public sector assets because of the ambiguous message that the valuation would be providing, which may have dangerous political and social consequences.

c) A22 (ii) – requires the valuation of the non-financial asset to "include liabilities that fund working capital, but do not include liabilities to fund assets other than those within the group of assets". In a public sector context, however, most often it would be difficult to identify liabilities in this way because borrowing is usually done to finance operations in a general way and not to finance a particular group of assets. For example, the French law forbids attaching taxation revenues to specific uses of collected funds. Also in Germany, by definition, the nature of taxes refers to the taxation object without any consequences for their use (this is the main difference between taxes and fees in Germany).

d) A28 – requires that, on initial recognition, the difference between fair value and the transaction price is recognized in surplus/deficit (unless the particular IPSAS states otherwise). It may be argued that introducing such subjectivity, immediately at the point of recognition of an asset/liability, would cast a rather 'shady' doubt on the accountability of the reporting entity. Most often, this amount would not be realized or realizable, undermining the users' need to understand and assess public sector entity financial sustainability.

e) A42 onwards – refer to present value techniques, which would require the establishment of a discount factor. It may be argued that it is rather difficult and hazardous to establish an appropriate discount factor in the public sector context, in particular for more governmental-

type of entities. It raises unaddressed concerns with pro-cyclical effects and self-fulfilling prophecies that were experienced already in the private sector (Biondi, 2012).
The use of discount factors would introduce a high level of subjectivity, especially when measuring long-term liabilities like pension obligations, as illustrated by the UK case study (Biondi, 2016). In order to reduce such subjectivity, a discounting regulation was released in Germany, for the private sector, specifying the method which the German Bundesbank should apply when calculating discount rates for the valuation of pensions. In the public sector (Standards staatlicher Doppik, which can be applied on Federal [central] or state [Länder] Level), an institution has been set up to prescribe discount factors for provisions that are adjusted on an annual basis.
Such developments at country level make the requirement of IPSAS guidance more important for the sake of comparability.

f) A89 – "An entity's intention to hold the asset or to settle or otherwise fulfil the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement." Similar arguments as in (b) and (d) apply.

The valuation techniques mentioned in A37 and A38 are quite technical. Some examples to illustrate their application in a public sector context would be appreciated.

It is very important for the IPSASB to clarify the definitions of "fair value" and "market value". As also acknowledged by the IPSASB (par. 2.12, Page 18), there should be only one definition of "fair value", and the IPSASB should be clear about this from the start.
Par. 2.21, Page 19, states that "At present, the IFRS 13 definition of fair value is explicitly exit-based, while market value continues to be a neutral definition – either entry or exit".
The scope of the ED refers to "market value less costs to sell" as another measurement basis (page 45, par. 3[b]). Therefore, market value is still relevant.
Paradoxically, the difference between the definitions of "fair value" (page 45) and "market value" (pages 46-7) seems to be that the latter refers to exchanges not carried out in a market.
Footnote 39 on page 83 refers to the "old" definition of fair value.
In our opinion, **this confusion needs to be dealt with in the Conceptual Framework by amending the definition of "market value" in order to focus on the entry aspect of the measure**, as suggested by the IPSASB (par. 2.24, page 20). **Furthermore, we encourage the IPSASB to issue a specific standard on fair value for the public sector, taking into consideration the UK experience (Hodges, 2016) in order to minimize the instances when fair value is used.**

Our response to SMC 1 refers to the problem identified in par. 2.17 (page 19) with regards to the cost approach, replacement cost and current replacement cost.

Preliminary View 5—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:

First of all, we wish to point out that the exercise of compiling Appendix B should assist the IPSASB to **update Chapter 7** of the Conceptual Framework in a comprehensive manner.

Appendix B is compiled from extracts from Chapter 7 of the IPSASB Conceptual Framework, with certain elaborations. In our opinion, the elaborations should be considered for inclusion in the Conceptual Framework, taking into consideration the following comments:

a) There appears to be a conflict between B9 and B10 about the least costly manner of settlement.
b) With reference to B12, as we already pointed out, sometimes a public sector entity cannot act "in its own economic best interest"; therefore, this assumption may need to be revised.
c) B19 should refer to IPSAS 19 (similar to B7).
d) The subjectivity required to calculate the Risk Adjustment (B32-B37) may have a negative impact on the level of accountability and may give misleading notions about the fulfilment value of a liability due by a public sector entity to a private third party.

Preliminary View 6—Chapter 2 (following paragraph 2.28)

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response:

Appendix D is compiled from extracts from Chapter 7 of the IPSASB Conceptual Framework, with certain elaborations. In our opinion, the elaborations should be considered for inclusion in the Conceptual Framework, taking into consideration that the assumption that an entity acts in its own best interests does not always apply (D25). Sometimes an entity has to follow instructions issued by a higher–level governing body; or it may act for social, cultural and political interests rather than for economical reasons.

Preliminary View 7—Chapter 3 (following paragraph 3.28)

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. Do you agree with the IPSASB's Preliminary View? If not, please state which option you support and provide your reasons for supporting that option.

Response:

We support the IPSASB's decision to move away from IFRS requirements in the case of borrowing costs, and to require that all borrowing costs are expensed. The stance takes into consideration the particular financing characteristics of public sector and government-like entities. The fundamental issue of intergenerational equity further justifies the expensing of borrowing costs. Furthermore, the requirement to expense all borrowing costs would lead to more comparability, better asset management and more accurate calculations of costs of services[15].

The problem is that the capitalization of borrowing cost is standard practice in private sector project finance. It may prove difficult for the IPSASB to retain its position to expense borrowing costs because many jurisdictions allow these costs to be capitalised, either explicitly or by allowing a third party to develop the asset and include the borrowing costs within the final acquisition cost / transfer price. Indeed, it is possible that a government operates on behalf of somebody else (e.g. a local government on behalf of a central government) whereby "job order accounting" is necessary implying that borrowing costs should be allocated to that job or project. In American fund accounting, this project will be treated as a specific fund.

Therefore, given that IPSAS are international standards (and not just European), it may be argued that it would make sense to leave both **options** available because developing countries may have significant borrowing costs related to capital assets. **Expensing borrowing costs would be the preferred treatment**, but capitalisation may be allowed on the basis of materiality considerations.

[15] Nevertheless, it has to be stressed that, for the calculation of the cost of services, there is no obvious reason for the values used to coincide with those of financial reporting. While referring to the same data sources, cost accounting and financial reporting do not have to use the data in the same way.

Preliminary View 8—Chapter 3 (following paragraph 3.36)

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Response:

Yes, we support this definition of transaction costs. It is the definition found in IPSAS 41, but slightly amended to apply to all types of assets and liabilities (not just financial ones).

Preliminary View 9—Chapter 3 (following paragraph 3.42)

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS *Measurement* standard for all IPSAS. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Response:

Based on our position regarding the IPSAS on Measurement, we are of the opinion that the definition of "transaction costs" should be **included in Chapter 7** of the IPSASB's Conceptual Framework, to which the individual standards refer. This would ensure consistency in accounting for transaction costs.

Preliminary View 10—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response:

Here we are referring to transaction costs incurred when entering into a transaction. In this situation, we agree with the IPSASB's Preliminary View.

By definition, fulfillment value and fair value should not include transaction costs, that is, initial transaction costs are ignored. This applies to instances when an asset is acquired and when a liability is incurred.

On the other hand, when acquiring an asset that is valued at historical cost or replacement cost, the transaction costs should be included (added) in the valuation.

Preliminary View 11—Chapter 3 (following paragraph 3.54)

The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response:

Here we are referring to transaction costs incurred when exiting a transaction. Should these be included in the measurement of the asset/liability at initial recognition? We agree with the IPSASB's Preliminary View with some clarification.

For example, a government entity acquires an energy plant with an estimated life of 20 years, after which it would need to be dismantled at an extra cost. The question is whether to include this extra cost when measuring the value of the plant to include in the balance sheet at initial recognition. We agree with the IPSASB's view that the valuation of the asset should exclude (ignore) such a transaction cost.

The same would apply for a liability which would require, say, additional legal costs to be incurred when it is extinguished (unless the liability is measured at fulfillment value, which, by definition, would include such transaction cost in the valuation).

Since we are considering expected transaction costs (not incurred), then these would need to be accounted for according to IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets.* Regardless of how the asset or liability shall be measured during ownership, the transaction costs required in order to dispose of an asset or settle a liability would need to be at least disclosed because they are always relevant for the decision-maker. Therefore, while we agree that such transaction costs are not included in the valuation of the asset/liability, they would need to be accounted for as a separate line item, according to the requirements of IPSAS 19.

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED. Do you agree that the list of definitions is exhaustive? If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Response:

The list of definitions could be improved by making a distinction between (a) measurement bases; (b) valuation techniques; and (c) other terms.

The list of definitions in the ED (par. 6 pp. 45-47) refers to the "income approach" and "market approach" as two valuation techniques. The ED should specify that these valuation techniques are related to fair value and are better explained in Appendix A.

The list of definitions in par. 6 includes the "**Cost approach**", also known as the "current replacement cost". Referring to this valuation technique as "cost approach" may be misunderstood as referring to "historical cost". It may be better to refer to it as "**current replacement cost**", and perhaps also integrate it with the definition for "replacement cost". Furthermore, the "cost approach" as mentioned in Appendix A (A31, A39, A40) should also be called "current replacement cost".

The "current replacement cost" is also mentioned in Appendix D, linking it with "market price" and "depreciated replacement cost" (page 92, par. D29, D30). Due to the reference made to it in the ED (page 50, par. 23), perhaps the definition of "depreciated market value" should also be included in the list of definitions. Are the two terms "**depreciated replacement cost**" and "**depreciated market value**" interchangeable?

The definitions for market value of assets and liabilities refer to "**an arm's length transaction**". Perhaps the list of definitions should, therefore, provide the definition of an "an arm's length transaction" in a public sector context. It would be interesting to see how this term can be made relevant for the public sector context.

The ED (page 49) refers to "recoverability" (par. 16) and "amortized cost" (par. 19). Perhaps the definitions of "recoverable amount" and "amortized cost" should be included in the list of definitions.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement Project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct? Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

Response:

Yes, we agree that the IPSASB should note similarities that are apparent between the three frameworks, but this does not mean that they need to be aligned by attempting to reduce these differences. These frameworks are different because they have different objectives. The professionals working with these frameworks need to work in sync so that they understand each other, but this does not mean that the frameworks should be identical. For example, IVS 2017 does not recognize the term "value in use" as a measurement basis[16], when perhaps this is the most relevant measurement basis to value an asset in the public sector context. The fact that the IVS 2017 does not recognize the term, does not reduce the relevance of "value in use" in any way.

The description of "equitable value" on page 108 implies that it refers to transactions that are not carried out at arm's length, since it reflects the interests of those parties. If this understanding is correct, it is not surprising that it is not used in a public sector context because the reporting entity may be accused of underhand transactions lacking in transparency. We would not encourage the IPSASB to pursue such a valuation.

When two or more assets are worth more when combined, the extra value is referred to as "goodwill" in accounting terms[17]. For well-established reasons, in the private sector, inherent goodwill is not accounted for unless purchased. For the same reasons, "synergistic value" need not be considered for relevance to measuring public sector assets. First of all, with regards to inherent valuations, it should be borne in mind that that governments can influence the value of their assets, for example, by changing legally the "status" of land for agricultural activities to land for building houses. Or vice versa, streets and houses can be demolished and become green areas. Secondly, in the UK public sector, even purchased goodwill was not accounted for (Biondi, 2016). In the UK, there was concern over the reorganization of public sector bodies giving rise to 'business combinations' (in IFRS 3 terminology) that could give effect to revaluing assets and introducing goodwill into public group accounts. The result was an accounting regulation that dealt with the combination of public sector bodies that are not at arms-length to each other. This applies to most

[16] In our opinion, "value in use" is not the same as "investment value" as defined in IVS 2017.
[17] It is called "positive synergy" in Germany.

public sector reorganisations. Two different accounting treatments are identified, neither of which has the impact of acquisition accounting:

(a) Transfer by merger effectively uses merger accounting. There is no revaluation of assets and liabilities, no goodwill and the bodies are treated as always having been part of the same group using the same accounting policies.

(b) Transfer by absorption. There is no revaluation of assets or liabilities; there is no goodwill; and the bodies are treated as having been part of the same group from the date of the reorganisation (which means prior periods do not have to be adjusted).

For a slightly more detailed explanation see UK Treasury Financial Reporting Manual 2019-20 pp. 11-13.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including: - The Conceptual Framework Measurement Objective; - Reducing unnecessary differences with GFS; - Reducing unnecessary differences with IFRS Standards; and - Improving consistency across IPSAS. If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

Response:

Even though diagrams tend to present an over-simplification of complicated issues, the two diagrams are helpful for their purpose, provided that **Chapter 7 of the Conceptual Framework is improved** in line with the comments received on this consultation paper.

If the "other matters" referred to are indicative of a prioritization process, we would suggest the following order:

- The Conceptual Framework Measurement Objective;
- Improving consistency across IPSAS;
- Reducing unnecessary differences with GFS; and
- Reducing unnecessary differences with IFRS Standards.

We have the following comments to make on Chapter 4 of this Consultation Paper.

We agree with the stance taken by the IPSASB as to how to deal with fair value, as described in footnote 29 (page 35). In its evaluation, the IPSASB should take into consideration the discussions and issues that have already been highlighted by the UK FRAB in its attempt to adapt IFRS 13 for the public sector context.

With reference to Diagram 4.1, this starts from the premise that an asset is held either for financial or operational capacity. Par. 4.11 (page 38) explains that assets held for their operational capacity are held to support the provision of services. The IPSASB should clarify whether "provision of services" includes assets held for social/cultural value or whether such assets fall into a different category. For example, would assets that are kept for specific legally defined purposes, e.g. stolen property of which the government becomes the owner after a period of time or other goods with restricted possibilities, be classified as "operational"? Or would they be another category of assets requiring different measurement criteria?

Par. 4.14 refers to “amortized cost” and “net selling price” (or “net realizable value”, as indicated in footnote 33) as alternative measurement bases/techniques. Costs of sale are also transaction costs related to the disposal of an asset. “Net selling price” is, therefore, the same as “market price less transaction costs” (costs to sell), which is referred to as a measurement basis for determining the current value of an asset in par. 4.15(b). This further supports our view that such bases should be covered by the proposed standard (or the Conceptual Framework, as we suggest). More importantly, the **various synonyms in use highlight the need for the IPSASB to align its terminology** in order to be more straightforward and understandable.

As already indicated, further application guidance is also required about “value in use”. Par. 4.15(b) (page 40) defines this as “the present value to the entity of the asset’s remaining service potential …” The difficulty to measure service potential has already been recognized. In order to avoid misunderstanding, the definition should refer to “replacement cost” or “current replacement cost” that can be used as a proxy.

Par. 4.15(a) (page 40) states that “assets measured at historical cost provide information that indicates the entity expects the asset has the ability to generate sufficient economic benefits and service potential at least to recover the cost of the asset”. We wish to point out that such an expectation may in fact be rare in a public sector context because it goes against the non-profit motive that underlies governmental activity. The recovery of resources absorbed by an operation is the mentality of business enterprises focusing on wealth creation (Biondi, 2012).

Conclusion:

We appreciate the effort done by the IPSASB to prepare a draft ED in conjunction with the Consultation Paper. This process gives a clear picture of the intentions of the IPSASB. Hopefully, it does not indicate that the ED is *fait accompli*.

With regards to the Measurement Project, basically, we cannot understand the objective of preparing a specific IPSAS on Measurement. The conceptual level of the arguments included in the consultation paper imply that **Chapter 7 in the Conceptual Framework should updated**, so that the individual IPSAS are then aligned accordingly. In our opinion, the IPSASB should use the responses to this Consultation Paper on Measurement to update the Conceptual Framework so that it can function as a basis to which the IPSAS can refer. Subsequently, the IPSASB should revise existing IPSAS so that measurement issues are consistent with the Conceptual Framework. If necessary, the IPSASB **can then consider the preparation of an IPSAS on *Fair Value for the Public Sector***, which would be the IPSASB's response to the IASB's IFRS 13.

In the process, we re-iterate that the IPSASB should:

(a) undertake a consolidated effort to clarify and synthesize the terminology used throughout the Conceptual Framework and the individual IPSAS. In other words, the IPSASB should seek to remedy the current situation where different terms are used inter-changeably because this is having a negative impact on the understandability of IPSAS.
(b) Take into consideration government accounting practices that have been developed to date because these reflect the difficulties encountered in application. This would be in line with the IPSASB's strategy to enhance comparability on an international level.

Finally, should the IPSASB proceed with the issue of an IPSAS on Measurement, we would like to point out that perhaps the scope should be limited to **exclude combinations and transfers**; that is, the proposed IPSAS should not include the impact of combination of entities, giving rise to mergers and acquisitions etc.

Date: 2 October, 2019 **Signed on behalf of the (18) persons listed below**

Aggestam Pontopiddan	Caroline	Associate Professor of Accounting	Copenhagen Business School, Denmark
Anessi Pessina	Eugenio	Professor of Public Management	Università Cattolica del Sacro Cuore, Milan, Italy
Biondi	Yuri	Senior Tenured Research Fellow of the CNRS	IRISSO, University Paris Dauphine PSL, France
Bisogno	Marco	Associate Professor of Accounting	University of Salerno, Italy
Brusca	Isabel	Professor of Accounting and Finance	University of Zaragoza, Spain
Caperchione	Eugenio	Professor of Public Management	Department of Economics "Marco Biagi", Modena and Reggio Emilia University, Italy
Caruana	Josette	Senior Lecturer, FCCA, FIA, CPA, MA (Fin. Services), PhD	Department of Accountancy, University of Malta, Malta
Christiaens	Johan	Professor Public Sector Accounting, CPA, Public Sector EY	Ghent University, Belgium
Cohen	Sandra	Professor of Accounting	Department of Business Administration, Athens University of Economics and Business, Greece
Dabbicco	Giovanna	Researcher, PhD and Adjunct Assistant Professor	ISTAT, and Roma 3 University, Italy
Haustein	Ellen	Lecturer and Scientific Researcher; Chair of Accounting, Management Control and Auditing	University of Rostock, Germany
Hodges	Ron	Professor Emeritus of Accounting	Birmingham Business School, University of Birmingham, U.K.
Jorge	Susana	Tenured Professor with accreditation	Faculty of Economics, University of Coimbra, Portugal
Lorson	Peter	Chair of Accounting, Management Control and Auditing; Professor	University of Rostock, Germany

Manes Rossi	Francesca	Associate Professor of Accounting, CPA, co-chair of EGPA PSGXII	University of Naples Federico II, Italy
Reichard	Christoph	Professor Emeritus of Public Management	University of Potsdam, Germany
Sicilia	Mariafrancesca	Associate Professor of Public Sector Management and Accounting	University of Bergamo, Italy
Steccolini	Ileana	Professor of Accounting	Essex University, U.K.

ACT Government
Chief Minister, Treasury and Economic Development

Mr Ian Carruthers
Chair
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

Dear Mr Carruthers

Consultation Paper *Measurement*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the invitation to provide feedback on the Measurement consultation paper.

HoTARAC is comprised of senior public sector specialists in accounting and financial reporting in the Australian, State and Territory Governments. HoTARAC's interest in the topic arises from its members' roles in preparing public sector financial statements.

Australian, State and Territory Governments and most other public sector entities are required to apply Australian Accounting Standards (AAS). These are based on IFRS and include AASB 13 *Fair Value Measurement* (the equivalent of IFRS 13). Financial reports are also required to comply with the measurement and recognition principles in the Australian Bureau of Statistics GFS Manual, where these do not conflict with Australian Accounting Standards.

HoTARAC's response to the specific matters for comment attached to this letter. If you have any queries regarding our comments, please contact Sean Osborn from New South Wales Treasury on +61 2 9228 5932 or by email to sean.osborn@treasury.nsw.gov.au.

Yours sincerely

David Nicol
CHAIR
Heads of Treasuries Accounting and Reporting Advisory Committee
31 October 2019

Attachment: Consultation Paper *Measurement*

HoTARAC Comments to the IPSASB Consultation Paper *Measurement*

Preliminary View 1—Chapter 2 (following paragraph 2.6)
The IPSASB's Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

HoTARAC agrees.

Preliminary View 2—Chapter 2 (following paragraph 2.6)
The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and state what guidance should be included, and why.

HoTARAC agrees.

Preliminary View 3—Chapter 2 (following paragraph 2.10)
The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

The majority of Australian jurisdictions mandate their agencies value their assets at fair value for consistency with GFS principles and therefore have limited interaction with historical cost, therefore have no comment.

Preliminary View 4—Chapter 2 (following paragraph 2.16)
The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

HoTARAC agrees and supports principles based guidance that aligns with the existing IFRS 13. As noted above, the majority of Australian jurisdictions use fair value and, in line with IFRS 13 do not generally need to consider an entry price as noted in para 2.23 of the consultation paper (in reference to current value). Rather the exit price is considered when determining the price of fair value as per para 24 of IFRS 13. An alignment to IFRS 13 will be consistent with general GFS principles, where fair value is assumed to be the best proxy for market value, which is also determined by reference to an exit price.

HoTARAC recommends that the application guidance considers circumstances in which it may be difficult for public sector entities to apply. For example, it can be difficult to apply the concept of a principal market when there is no market for many public sector assets.

Preliminary View 5—Chapter 2 (following paragraph 2.28)
The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

The approach proposed is consistent with the IFRS Conceptual Framework to be adopted in Australia and HoTARAC has no further suggestions.

Preliminary View 6—Chapter 2 (following paragraph 2.28)
The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, stating clearly what you consider needs to be changed.

HoTARAC notes that paragraph 2.17 suggests further work is to be done on aligning the concept of replacement cost as measurement base and replacement cost as a measurement technique.

Apart from this, HoTARAC has no comment on whether the guidance is complete but agrees in principle that aligning the conceptual framework and guidance will reduce confusion and promote consistency.

Preliminary View 7—Chapter 3 (following paragraph 3.28)
The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalised, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.
Do you agree with the IPSASB's Preliminary View?
If not, please state which option you support and provide your reasons for supporting that option.

HoTARAC agrees. It is more relevant for users to be able to identify total borrowing costs as a line item, rather than some of these costs being capitalised into asset values. The same rationale applies under GFS and expensing borrowing costs is consistent with GFS principles.

HoTARAC recommends the inconsistency in the rationale for the treatment of entity –specific costs between paragraph D27 and 3.7 is also addressed.

We note for for-profit entities the Australian accounting standard AASB 123 *Borrowings* requires these costs to be capitalised (para 8). However not-for-profit entities have the option to capitalise or expense. Some Australian jurisdictions, including NSW have chosen to mandate expensing these costs to align to the GFS requirements.

Preliminary View 8—Chapter 3 (following paragraph 3.36)
The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

HoTARAC agrees.

Preliminary View 9—Chapter 3 (following paragraph 3.42)
The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.
Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

HoTARAC notes that while this appears reasonable for consistency purposes, the result is confusion over the circumstances in which transaction costs are included.

For example, Table 3.1 excludes transaction costs from fair value. Replacement cost is used as an estimate of fair value in IPSAS 16, suggesting the exclusion of transaction costs. However, paragraph D27 states:

> "As an asset's replacement cost represents an entity-specific entry price to replace the service potential of the asset, transaction costs incurred in acquiring, or that would be incurred in replacing, the asset are included in its determination."

HoTARAC notes that paragraph 2.17 acknowledges the tension between replacement costs as measurement basis and measurement techniques and the requirement for further development through the Conceptual Framework.

HoTARAC questions whether these type of issues can addressed until the underlying conceptual framework project is advanced.

Preliminary View 10—Chapter 3 (following paragraph 3.54)
The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:
- Excluded in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Included in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

The fair value accounting proposed by IPSASB i.e. to exclude transaction costs is consistent with the current methodology used in Australian accounting standards. IFRS and Australian accounting standards exclude transaction costs from current replacement cost, therefore there is an apparent inconsistency between these and the IPSASB proposal.

Preliminary View 11—Chapter 3 (following paragraph 3.54)
The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:
- Included in the valuation of liabilities measured at fulfillment value;
- Excluded from the valuation of assets and liabilities measured at fair value; and
- Excluded in the valuation of assets measured at historical cost and replacement cost.

Do you agree with the IPSASB's Preliminary View?
If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

The fair value accounting proposed by IPSASB i.e. to exclude transaction costs is consistent with the current methodology used in Australian accounting standards and therefore HoTARAC agrees with this approach.

Attachment: Consultation Paper *Measurement*

Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)
Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.
Do you agree that the list of definitions is exhaustive?
If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

HoTARAC has no further suggestions of definitions.

Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)
Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?
Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

HoTARAC agrees with the proposal of alignment and reducing differences where possible. HoTARAC notes GFS focuses on market based measurement and the concepts within the IVS 2017 (shown in Table 3.3) of equitable value and synergistic value may not necessarily align with GFS principles. However, GFS does allow for the concept of goodwill and HoTARAC suggests the IPSASB acknowledge this in the table.

Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)
Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:
- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

HoTARAC notes in principle these diagrams are a good starting point.

In terms of feedback for Diagram 4.1 HoTARAC suggests:

- there is an option for assets held under operational capacity to be valued at fair value. This would be consistent with IFRS and GFS principles; and
- a minor change in the format in the diagram. The first question under the operational model should lead to replacement cost rather than current or historical cost, as replacement cost is more aligned to GFS concepts. While acknowledged both are allowed, we believe readers should be directed to this measurement base first.

MALAYSIAN INSTITUTE
OF ACCOUNTANTS

18 October 2019

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

Dear John,

CONSULTATION PAPER ON *MEASUREMENT*

The Malaysian Institute of Accountants (MIA) is pleased to provide comments on the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper (CP) on *Measurement* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,
MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

Dewan Akauntan, Unit 33-01, Level 33, Tower A, The Vertical, Avenue 3
Bangsar South City, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia
Website: www.mia.org.my | Tel: + 603 2722 9000 | Fax: + 603 2722 9100

Appendix 1

Part 1: Preliminary Views

Preliminary View 1

The IPSASB's Preliminary View fair value, fulfillment value, historical cost and replacement cost require additional application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

We agree with the IPSASB's Preliminary View 1 to have additional application guidance for fair value, fulfillment value, historical cost and replacement cost. However, we also believe that additional application guidance would be required for market value if IPSASB decides to retain market value as a measurement basis. Please refer to our comment on Preliminary View 4.

We also agree that aligning the International Public Sector Accounting Standard (IPSAS) fair value measurement with IFRS 13 *Fair Value Measurement* would create a significant overlap in the definitions of market value and fair value. In addition, we support the IPSASB's view on the needs of having both entry and exit values for public sector entities. Accordingly, it is critical for the IPSASB to study the differences between market value and fair value and then determine whether either one or both are relevant for public sector entities.

Preliminary View 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

We agree with the IPSASB's Preliminary View 2 that the application guidance for the most commonly used measurement bases should be generic in nature.

Preliminary View 3

The IPSASB's Preliminary View is guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

We agree with the IPSASB's Preliminary View 3 that guidance on historical cost should be derived from existing text in IPSAS and Appendix C: Historical Cost-Application Guidance for Assets to be complete.

Preliminary View 4

The IPSASB's Preliminary View is fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

We agree with the IPSASB's Preliminary View 4 that the fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector.

In Malaysia, many public sector entities provide and/or receive concessionary loans. In order to measure such loans at fair value, the present value of all future cash receipts is discounted using the prevailing market rate(s) of interest for a similar instrument (i.e. similar as to currency, term, type of interest rate and other factors) with a similar credit rating. It has been raised that public sector entities have difficulties in determining the appropriate effective rate of interest to be used given that there is no similar instrument available in the market.

We propose for the IPSASB to provide guidance on how to determine the appropriate effective rate of interest to measure the fair value of such loan at initial recognition.

We commend the IPSASB's proposal to address the overlap between market value and fair value in the Conceptual Framework Limited-Scope Review project, as stated in paragraph 2.24 of the CP.

Preliminary View 5

The IPSASB's Preliminary View is fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Dewan Akauntan, Unit 33-01, Level 33, Tower A, The Vertical, Avenue 3
Bangsar South City, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia
Website: www.mia.org.my | Tel: + 603 2722 9000 | Fax: + 603 2722 9100

Appendix 1

We agree with the IPSASB's Preliminary View 5 that the fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS and consider Appendix B: Fulfilment Value-Application Guidance, to be complete.

Preliminary View 6

The IPSASB's Preliminary View is replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded based on its application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

We agree with the IPSASB's Preliminary View 6 that the replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS and consider Appendix D: Replacement Cost-Application Guidance, to be complete.

Preliminary View 7

The IPSASB's Preliminary View is all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

We do not agree with IPSASB's Preliminary View 7 that all borrowing costs should be expensed rather than capitalised, with no exception for borrowing cost that are directly attributable to the acquisition, construction, or production of a qualifying asset.

We acknowledge that in the public sector, borrowing is often centralised and determined for the economic entity as a whole which may create challenges in allocating borrowing costs when they are not incurred directly by the entity constructing or developing the assets.

In Malaysia, MPSAS (which are based on IPSAS) are applied to federal and state governments, local authorities and federal statutory bodies where there are circumstances where borrowing costs may be allocated and incurred directly by these entities.

Accordingly, we believe that Option 2 which would require capitalisation of directly attributable borrowing costs to qualifying assets will be able to cater all the entities that are applying MPSAS in Malaysia. This will reduce unnecessary differences between IPSAS and International Financial Reporting Standards (IFRS). We also wish to propose that the

amount capitalised to be disclosed in the notes to the financial statements for the purpose of Government Finance Statistics (GFS) reporting.
Preliminary View 8 **The IPSASB's Preliminary View is transaction costs in the public sector should be defined as follows:** **Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.** **Do you agree with the IPSASB's Preliminary View?** **If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.**
We agree with the IPSASB's Preliminary View 8 on the definition of transaction costs.
Preliminary View 9 **The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.** **Do you agree with the IPSASB's Preliminary View?** **If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.**
We agree with the IPSASB's Preliminary View 9 that the transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.
Preliminary View 10 **The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:** **- Excluded in the valuation of liabilities measured at fulfillment value;** **- Excluded from the valuation of assets and liabilities measured at fair value; and** **- Included in the valuation of assets measured at historical cost and replacement cost.** **Do you agree with the IPSASB's Preliminary View?** **If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.**

Dewan Akauntan, Unit 33-01, Level 33, Tower A, The Vertical, Avenue 3
Bangsar South City, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia
Website: www.mia.org.my | Tel: + 603 2722 9000 | Fax: + 603 2722 9100

Appendix 1

We agree with the IPSASB's Preliminary View 10.
Preliminary View 11 **The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:** **- Included in the valuation of liabilities measured at fulfillment value;** **- Excluded from the valuation of assets and liabilities measured at fair value; and** **- Excluded in the valuation of assets measured at historical cost and replacement cost.** **Do you agree with the IPSASB's Preliminary View?** **If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.**
We agree with the IPSASB's Preliminary View 11.

Part II: Specific Matters for Comment

Specific Matter for Comment 1 **Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.** **Do you agree that the list of definitions is exhaustive?** **If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.**
We agree that the list of definitions is exhaustive.
Specific Matter for Comment 2 **Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?** **Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?**

Dewan Akauntan, Unit 33-01, Level 33, Tower A, The Vertical, Avenue 3
Bangsar South City, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia
Website: www.mia.org.my | Tel: + 603 2722 9000 | Fax: + 603 2722 9100

Appendix 1

We agree that the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets.
Specific Matter for Comment 3 **Do you agree that the measurement flow charts (Diagrams 4 1 and 4 2 provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and develop new IPSAS, acknowledging that other matters need to be considered, including:** **- The Conceptual Framework Measurement Objective;** **- Reducing unnecessary differences with GFS;** **- Reducing unnecessary differences with IFRS Standards; and** **- Improving consistency across IPSAS.** **If not, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.**
We agree that the measurement flow charts provide a helpful starting point to review measurement requirements. However, we propose that the title in Diagrams 4.1 and 4.2 be changed to "Measurement Bases of Assets" and "Measurement Bases of Liabilities" respectively. This is because the term "subsequent measurement" in the IFRS denotes a different meaning.

Dewan Akauntan, Unit 33-01, Level 33, Tower A, The Vertical, Avenue 3
Bangsar South City, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia
Website: www.mia.org.my | Tel: + 603 2722 9000 | Fax: + 603 2722 9100

Public Sector Accounting Board
277 Wellington Street West,
Toronto, ON Canada M5V 3H2
www.frascanada.ca

September 27, 2019

International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: Response to Consultation Paper, *Measurement*

Thank you for the opportunity to provide input on a future International Public Sector Accounting Standard on measurement.

PSAB staff applauds the IPSASB for taking on this project, in an effort to compile the available application guidance on the various measurement bases, in one IPSAS.

Overall PSAB staff agrees with the preliminary views put forward by the IPSASB. We have provided additional comments for your consideration to some of the preliminary views and the significant matters for comment, in Appendix A. We have also provided additional comments for the IPSASB's consideration, that are outside the preliminary views or significant matters for comment, in the same Appendix. We wanted to bring to your attention two of our additional comments, which relate to the inter-relationship with the Heritage project:

- We suggest that more information about reconstruction (or "reproduction") cost be included in the description of replacement cost (for example, a "replace same asset" versus "replace same capacity" discussion) since the heritage Agenda Item 11 for the IPSASB Sept-19 meeting mentions the use of reconstruction cost to measure some heritage items.

- We suggest that the IPSASB consider amending the measurement objective in relation to heritage items, as many are held in trust or for stewardship purposes and as a result, do not easily fit under a measurement objective that references only financial and operating capacity.

The comments set out in Appendix A represent the views of PSAB staff, not those of the Public Sector Accounting Board (PSAB).

We hope that you find the comments helpful.

Kind regards,

Antonella Risi, CPA, CA
Principal,
Public Sector Accounting Standards
arisi@psabcanada.ca

Martha Jones Denning, CPA, CA
Principal
Public Sector Accounting Standards
mjonesdenning@psabcanada.ca

APPENDIX A – RESPONSES TO PRELIMINARY VIEWS AND SPECIFIC MATTERS FOR COMMENT

Preliminary View 1
Fair value, fulfillment value, historical cost and replacement cost require additional application guidance.

Agreed.

Preliminary View 2
The application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

- Agreed. It would be helpful to include the above statement in the IPSAS, *Measurement.*
- We suggest specifying that both initial and subsequent measurement guidance would be addressed at the standards level, as follows:

  > The application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific **initial and subsequent** measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Preliminary View 3
Guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost – Application Guidance for Assets, to be complete.

We have the following comments on Appendix C:

- Footnote 38 on the heading of the Appendix indicates the guidance focuses on the historical cost of assets because the consultation paper's flow chart for liability measurement indicates that historical cost is not applicable to the measurement of liabilities. We disagree with this statement for the following reasons:
  - According to the Liability Flow Chart in Diagram 4.2, historical cost is one of the options.
  - Historical cost, as a measurement attribute has been used for liabilities.
  - Your conceptual framework lists historical cost for liabilities.
  - The IASB, in its conceptual framework, also acknowledges "historical cost" as a measurement base for liabilities.

- The equivalent to historical cost for liabilities is "historical proceeds"[1].

- There is no discussion as to what happens to the historical cost value subsequent to initial measurement in the Appendix (some information is included in the body of the illustrative exposure draft). It may be helpful to include this information. An example of this information could be "Subsequent to initial measurement: (a) the historical cost of an asset may be adjusted (e.g., for amortization or impairment); or (b) the historical cost of a liability may be adjusted (e.g., to reflect the accrual of interest, the accretion of a discount or amortization of a premium); or (c) an estimated historical cost amount may be adjusted because of a change in an estimate."

- The phrase "acquire, construct and/or develop" is introduced as a heading to paragraph C10 and then used for the remainder of the Appendix. To be consistent in the Appendix, it may be helpful to include the phrase from the start (i.e. at the start of the appendix, the phrase "to acquire or develop" is used).

- The Appendix has a section on costs incurred after the acquisition and/or development of the asset that should be excluded. It may be helpful to include guidance as to costs that could be included such as betterments.

- Appendix A, B and D start with the objective of the specific measurement base. It may be helpful to include this objective in Appendix C to be consistent with the other Appendices.

- It may be appropriate to indicate that historical cost/historical proceeds may be a known amount, because of a transaction/contract price. Or, historical cost may be an estimated amount. For example:

  - An estimate of a government's liability for recovery assistance may be required for an event such as a natural disaster (this may mean that "fulfillment value" is a way to estimate the historical amount of a liability).

  - An estimate may also be required for an inherited asset initially accounted for, and for which no historical cost is available. The fair value ascribed to the asset at initial measurement[2] may be one way to estimate its historical cost, or valuation techniques may be required for such estimation.

[1] FASB Discussion Memorandum, *Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement*, FASB, December 2, 1976, pages 155, 189 and table on page 193. Page 193 defines historical proceeds as: "Initially the amount of cash (or its equivalent) received when an obligation was incurred."

[2] Historical cost and fair value of an item may be the same at initial measurement. FASB Discussion Memorandum, *Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement*, FASB, December 2, 1976, page189 states: "The initial measure of each of the five attributes may be provided by the historical exchange price and therefore initially may be identical, but subsequent measures during the period the asset or liability is held by the enterprise may differ significantly." Page 155 notes: "Each element of financial statements has several attributes that might be measured..... That is, just as a table has several attributes that can be measured, such as length, width, height, weight, etc., an asset or liability has several attributes that can be measured."

Preliminary View 4
Fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value – Application Guidance, to be complete.

Agreed.

Editorial Note: In paragraph A31, consider if "A41-A42" should be replaced with "A36-A42".

Preliminary View 5
Fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B – Fulfilment Value – Application Guidance, to be complete.

Agreed. However, we do have the following two comments:

- The definition includes an assumption that an entity will fulfill its obligations in the least costly manner. Does this assumption always make sense in the public sector? There may be policy reasons why an obligation may not be settled at the least costly amount. For example, regional development objectives may require that a costlier option be chosen. Similarly, paragraph B12. includes an assumption that the entity acts in its own economic best interest. Public sector choices may not always be in the economic best interest but may satisfy other policy objectives. We suggest the IPSASB discuss the description of fulfillment value in terms of public sector objectives to determine if the proposed definition and related text in Appendix B appropriately reflect the multiple objectives of public sector entities.

- Consider if fulfillment value is a way to estimate the "historical cost" of a liability rather than a separate measurement basis.

    - The definition of fulfillment value in paragraph 6 of the illustrative ED implies that it is a cost-related attribute as follows: "Fulfillment value is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner."

    - We question if fulfilment value is a measurement basis as it includes an assumption. Should measurement bases include assumptions? Or do only valuation or estimation techniques require assumptions as inputs for measuring an item?

Preliminary View 6
Replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D – Replacement Cost – Application Guidance, to be complete.

We have the following comments on Appendix D:

- IPSASB may want to consider providing guidance as to what is a "significant part" identified in paragraph D8.

- Paragraph D11 refers to service potential and service capacity. Are these terms intended to be used interchangeably? If so, it may be helpful to use one term, not both. If not, it may be helpful to define both terms. Note: PSAB uses "service capacity" in the same way that IPSASB employs "financial capacity" and "operational capacity"; that is, in a more global sense to measure the capacity of the entity to do something (in this case to serve the public). In contrast, "service potential" is used in relation to the capability of individual assets to be used to provide services.

Editorial Note:

- In paragraph D6, consider if "D30-D32" should be replaced with "D31-D33".

- In paragraph D7, consider if "D30" should be replaced with "D31".

Specific Matter for Comment 1
Definitions relating to measurement have been consolidated in the core text of the Illustrative ED. Do you agree that the list of definitions is exhaustive?

- Current value is mentioned many times. It may be helpful to include its definition in the list of definitions.

- Reconstruction (or "reproduction") cost is mentioned a few times in Appendix D. It may be helpful to include its definition in the list of definitions.

Specific Matter for Comment 2A
Guidance in IVS and GFS has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

We agree with the views expressed in Addendum B.

Specific Matter for Comment 2B
Do you agree that, in developing and Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets?

Yes.

Preliminary View 7
All borrowing costs should be expenses rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Agreed.

Preliminary View 8
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity has not acquired, issued or disposed of the asset or liability.

Agreed.

For Your Consideration: Borrowing costs seem to fall into the definition of "transaction costs" in that they are incremental costs that can be directly attributable to the acquisition of an asset and may not have been incurred if the entity did not acquire the asset. It would be helpful to include in the Exposure Draft, why borrowing costs are different from transaction costs.

Preliminary View 9
Transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.

Agreed.

Preliminary View 10
Transaction costs incurred when entering a transaction should be:
- excluded in the valuation of liabilities measured at fulfillment value;
- excluded from the valuation of assets and liabilities measure at fair value; and
- included in the valuation of assets measured at historical cost and replacement cost.

Agreed.

Preliminary View 11
Transaction costs incurred when exiting a transaction should be:
- included in the valuation of liabilities measured at fulfillment value;
- excluded from the valuation of assets and liabilities measured at fair value; and
- excluded in the valuation of assets measured at historical cost and replacement cost.

Agreed.

Specific Matter for Comment 3
Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and develop new IPSAS, acknowledging that other matters need to be considered, including:
- the conceptual framework measurement objective;
- reducing unnecessary differences with GFS;
- reducing unnecessary differences with IFRS; and
- improving consistency across IPSAS?

We have the following comments on the flow charts:

- Are the charts only applicable to subsequent measurement? Can they be applied to initial measurement? If not, what is the guidance for initial measurement?

- In Diagram 4.1, is the arrow going from "continue applying historical cost, replacement cost or alternative measurement basis" to "does the current measurement basis continue to faithfully represent the asset" required?

- Paragraph 4.14 indicates that alternative measurement bases for assets held for their financial capacity include historical cost and net selling price. It may be helpful to include these alternative

bases in Diagram 4.1 in the box "consider an alternative measurement basis" under the "fair value" flow.

- Paragraph 4.15 lists alternative measurement bases for the current value of assets held for their operational capacity. Similar to the comment above, it may be helpful to include these alternative bases in Diagram 4.1 in the box ""consider an alternative measurement basis" under the current value flow.

- Diagram 4.2 and the accompanying explanations seem to imply that historical cost cannot be used if the timing and amount of settlement is uncertain at the measurement date. We would like to challenge the IPSASB and state that historical cost can also be an estimate of future sacrifice of cash flows:

    - In "An Introduction to Corporate Accounting Standards" Paton and Littleton state the following "in ideal situations cost is gauged by the amount of cash which is immediately expended to acquire the particular commodity or service involved. For many transactions, however, the payment of cash is delayed for some time and in these cases true cost is measured by the amount of cash that would have to be expended if final settlement were effected at once."

    - In a FASB Discussion Memorandum "An Analysis of Issues Relate to Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statement and Their Measurement" the FASB indicated that historical cost, current costs and other measurement attributes may be identical at initial recognition.

    - Paragraph 18 of the illustrative exposure drafts presents an example of where historical cost is estimated.

    As such the IPSASB may want to consider the following, in addition to its existing definition: "Historical cost is the estimated amount of cash or its equivalent to be paid or other consideration to be sacrificed to acquire, construct or develop an asset."

Other Comments for the Board's Consideration

- **Measurement Objective:** Consider whether the measurement objective (in the conceptual framework) should include stewardship as a type of capacity in addition to financial and operating capacity. Heritage assets – especially those held in trust or for stewardship purposes – don't fit easily into either of the financial and operating capacity categories, unless they are used for non-heritage purposes.

- **New Measurement Base:** Reconstruction (or "reproduction") cost may be a measurement basis critical to measurement of heritage assets. It is currently mentioned only briefly as a type of replacement cost (i.e., replace same asset or replace same capacity). Consideration should be given to providing more detail on this measurement basis to ensure the Measurement IPSAS covers all key measurement bases, even those that are anticipated to be used in future IPSASs.

- **Use of "Attribute":** Measurement "basis" and "bases" seems to be used interchangeably throughout the consultation paper and exposure draft and in different contexts. The Board may want to consider:

    - either using the terms consistently or

    - substitute "basis" or "bases" with "attribute" and "attributes", to avoid any unnecessary confusion.

From a Canadian perspective, we use the term “measurement attribute” as “measurement “basis” is interpreted as being broader. “Measurement attribute” is defined as the feature of the asset or liability that is being measured (such as its historical cost or fair value). A dictionary[3] definition of “basis" is:

- the underlying support or foundation for an idea, argument, or process.
- the system or principles according to which an activity or process is carried on.

We suggest that the term “basis”, especially with respect to measurement, might be broadly interpreted to mean both a measurement attribute and the valuation technique used to estimate it. That is, “a present value technique was the basis for measuring the item’s fair value (i.e., one of the item’s attributes)”.

As a result, in PSAB’s concepts underlying financial performance project, we have chosen to use the term “measurement attribute” rather than “measurement basis”. Our conclusion was that measurement attribute was more precise and facilitated making a distinction between what is being measured (the attribute) and how it is being measured (which may require use of a measurement technique). The FASB Discussion Memorandum, Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement, FASB, December 2, 1976, was a primary source for this conclusion. Page 155 of that Memorandum notes:

> “Each element of financial statements has several **attributes** that might be measured..... That is, just as a table has several **attributes** that can be measured, such as length, width, height, weight, etc., an asset or liability has several **attributes** that can be measured.” [4]

[3] https://www.lexico.com/en/definition/basis

[4] The five attributes identified are:

1. Historical cost/historical proceeds
2. Current cost/current proceeds
3. Current exit value in orderly liquidation (current market value)
4. Expected exit value in due course of business (net realizable value) and
5. Present value of expected cash flows.

Present value is now known to be a measurement technique to measure an attribute, rather than a measurement attribute itself.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ZIMBABWE

Integrity House
2 Bath Road, Belgravia
Harare, Zimbabwe
+263(4)252670
www.icaz.org.zw

25 September 2019

The International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto,
Canada

Email: commentletters@ifrs.org

Dear Sir/Madam

ICAZ SUBMISSION ON Consultation Paper, Measurement

In response to your request for comments **Consultation Paper, Measurement**, attached is the comment letter prepared by the Institute of Chartered Accountants of Zimbabwe. The comment letter is a result of deliberations of the Accounting Procedures Committee (APC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists, and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Bothwell Nyajeka — Chairperson of the ICAZ Public Sector Committee
Macdonald Chitauro — Technical Manager

Cc: Gloria Zvaravanhu (ICAZ C.E.O)

ICAZ COMMENT LETTER

Preliminary View 1—Chapter 2 (following paragraph 2.6) ***The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.***	Agreed. The fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance. This important because their varying definitions for these terms in IFRS that may end up confusing preparers of financial information. The application guidance will assist all preparers to apply the measurement basis in a consistent basis improving the quality of financial information and comparability of the information.
Preliminary View 2—Chapter 2 (following paragraph 2.6) ***The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons, and state what guidance should be included, and why.***	Agreed. Application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities. See comments on 2 above. Making the application guidance generic will also alignment of all standards avoiding conflicting positions that may be subject to varying interpretations and applications.
Preliminary View 3—Chapter 2 (following paragraph 2.10) ***The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost–Application Guidance for Assets, to be complete.*** ***Do you agree with the IPSASB's Preliminary View?***	Agreed. Guidance on historical cost should be derived from existing text in IPSAS. This will make guidance on historical cost measurement consistent with existing standards. Review of Appendix C clearly indicates that historical cost as derived from existing IPSAS is sufficient. This also brings consistence in definition of historical cost as a measurement basis.

If not, please provide your reasons, stating clearly what you consider needs to be changed.	
Preliminary View 4—Chapter 2 (following paragraph 2.16) ***The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons, stating clearly what you consider needs to be changed.***	Agreed. Fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The approach proposed by the IPSASB has adopted of renaming market value, or redefining market value or removing market value as a measurement basis are material. My view would be redefining the term to align with other standards will remove the confusion on the conflicting definition of market value. Market value as a measurement basis is important both in private and public sector.
Preliminary View 5—Chapter 2 (following paragraph 2.28) ***The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons, stating clearly what you consider needs to be changed.***	Agreed. Fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. This will eliminate any potential conflicts that may arise should each IPSAS have its own guidance. It universalises the approach.
Preliminary View 6—Chapter 2 (following paragraph 2.28) ***The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons, stating clearly what you consider needs to be changed.***	Agreed. Replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded based on its application in IPSAS. Using the conceptual framework as the guidance basis is the best approach as it universalises the approach.
Preliminary View 7—Chapter 3 (following paragraph 3.28)	Agreed. All borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please state which option you support and provide your reasons for supporting that option.***	directly attributable to the acquisition, construction, or production of a qualifying asset. This approach is aggregable and justifiable on the basis that Governments and central governments don't always specifically borrow for specific assets. Mores, some assets are financed through other government revenue mechanisms like taxes and levies.
Preliminary View 8—Chapter 3 (following paragraph 3.36) ***The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows: Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.***	
Preliminary View 9—Chapter 3 (following paragraph 3.42) ***The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.***	Agreed, transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS. This will standardise the treatment of transaction costs and eliminate any potential variances and deviation from standard treatment given differences that may arise in different IPSASs.
Preliminary View 10—Chapter 3 (following paragraph 3.54) ***The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:*** ***- Excluded in the valuation of liabilities measured at fulfillment value;***	Agreed. Transaction costs incurred when entering a transaction should be: - Excluded in the valuation of liabilities measured at fulfilment value; - Excluded from the valuation of assets and liabilities measured at fair value; and

- Excluded from the valuation of assets and liabilities measured at fair value; and ***- Included in the valuation of assets measured at historical cost and replacement cost.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.***	- It should be rightly included in the valuation of assets measured at historical cost and replacement cost.
Preliminary View 11—Chapter 3 (following paragraph 3.54) ***The IPSASB's Preliminary View is that transaction costs incurred when exiting a transaction should be:*** ***- Included in the valuation of liabilities measured at fulfillment value;*** ***- Excluded from the valuation of assets and liabilities measured at fair value; and*** ***- Excluded in the valuation of assets measured at historical cost and replacement cost.*** ***Do you agree with the IPSASB's Preliminary View?*** ***If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.***	Agreed. Transaction costs incurred when exiting a transaction should be: - Included in the valuation of liabilities measured at fulfilment value; - Excluded from the valuation of assets and liabilities measured at fair value; and - Excluded in the valuation of assets measured at historical cost and replacement cost. This is appropriate as per the definition of transaction costs.
Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29) ***Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.*** ***Do you agree that the list of definitions is exhaustive?*** ***If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.***	In my view the definitions are exhaustive. The definitions cover all issues that pertain to the Zimbabwean environment.
Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5) ***Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of***	The conclusion on similarities apparent similarities between IPSAS, IVS and GFS makes sense given the common binding principles across the concepts. The common approach especially on expensing borrowing costs is common across the standards.

reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct? ***Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?***	Consideration of the concepts of Equitable Value and Synergistic Value is appropriate. Whereas synergistic value as the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values and equitable value being the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. These 2 must be appropriately considered as they complement each other.
Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21) ***Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:*** ***- The Conceptual Framework Measurement Objective;*** ***- Reducing unnecessary differences with GFS;*** ***- Reducing unnecessary differences with IFRS Standards; and*** ***- Improving consistency across IPSAS.*** ***If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.***	Agreed Other matters that need to be considered, include: - The Conceptual Framework Measurement Objective; - Reducing unnecessary differences with GFS; - Reducing unnecessary differences with IFRS Standards; and - Improving consistency across IPSAS. This make application of standards easy and will also make comparability of financial statements that come out of these standards meaningful.