

Friday, 29 November 2024

Mr Ian Carruthers  
Chairman  
International Public Sectors Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2  
Canada

Submission via [IPSASB](#) website

Dear Ian

**Exposure Draft (ED) 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement**

As the representatives of over 310,000 professional accountants around the world, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on Exposure Draft 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement* (ED 90). We make this submission on behalf of our members and in the public interest.

We reiterate our concerns relating to the introduction of current operational value (COV) as a fair value measurement basis. We stated the reasons in our [joint submission to IPSASB for EDs 76, 77, 78](#) (October 2021). We remain concerned that adding COV as a measurement basis cannot be justified from a cost-benefit perspective. However, we acknowledge that the IPSASB has proceeded to issue IPSAS 46 *Measurement* (IPSAS 46), which includes COV as a measurement basis. We have therefore provided our responses to ED 90 on the basis that the COV measurement is now applicable within the IPSAS.

We recommend the IPSASB conducts field testing before adopting the COV measurement basis to other standards/assets as proposed in ED 90, as it will help evaluate its feasibility and address some of the practical challenges that may arise. We support the IPSASB's decision in IPSAS 46, paragraph BC63, to address changes to measurement bases through the relevant IPSAS projects. We agree that it is important to allow stakeholders to assess the impact of each proposal within the context of its specific topic consultation.

We recognise the inherent complexities of the COV measurement basis, therefore we urge for more application guidance to better understand the practical aspects for specific assets. At present, we are concerned that the existing guidance in IPSAS 46 may not support the consistent and effective application of the COV measurement basis. Introducing practical expedients (e.g., where full compliance may be impracticable) could also be beneficial in certain situations to address such concerns.

**COV as a current value measurement basis for inventories**

We are not aware of any accounting measurement concerns related to inventory that would necessitate the introduction of COV as a measurement basis for inventory. As such, the issue the IPSASB seeks to address remains unclear.

**COV as a current value measurement basis for intangible assets**

For intangible assets, we support the Alternative View presented in ED 90. We do not support the use of the COV measurement basis for intangible assets held for their operating capacity, as it involves significant judgement, introduces inconsistencies, and may not faithfully represent the asset's service potential.

**COV as a current value measurement basis for right-of-use (ROU) assets**

We agree in principle that there are opportunities to explore the application of the COV measurement basis to right-of-use (ROU) assets. However, based on the feedback we have received, additional guidance would be needed to clarify how COV would be applied to ROU assets.

**Replacing value-in-use (VIU) of non-cash generating assets with COV**

We do not support replacing the value-in-use (VIU) measurement for non-cash generating assets with the COV measurement basis in the definition of recoverable service amount for the impairment test.

The **Attachment** to this letter contains our responses to the specific matters for comment in ED 90. If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at [Ram.Subramanian@cpaaustralia.com.au](mailto:Ram.Subramanian@cpaaustralia.com.au) or Amir Ghandar (CA ANZ) at [amir.ghandar@charteredaccountantsanz.com](mailto:amir.ghandar@charteredaccountantsanz.com).

Sincerely

**Elinor Kasapidis**

Chief of Policy, Standards and External  
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**CPA Australia**

**Simon Grant FCA**

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**Chartered Accountants Australia and New Zealand**

## Attachment

### Response to Specific Matters for Comment

#### Specific Matter for Comment 1:

**Do you agree that current operational value is an applicable current value measurement basis for assets in the scope of IPSAS 12, Inventories, and IPSAS 31, Intangible Assets, as proposed in Part 1 of this ED?**

**If you do not agree please explain your reasoning.**

We do not agree that the current value measurement basis/current operational value (COV) is an appropriate measurement basis for assets generally. However, since IPSAS 46 now includes COV as a measurement basis, it is essential that field testing is undertaken to assess the impact of this measurement basis before the IPSASB adopts the COV measurement basis to other standards/assets. This would help to address some of the practical challenges that may arise from the introduction of this new measurement basis. We also support the IPSASB's decision in IPSAS 46, paragraph BC63, to address changes to measurement bases through the relevant IPSAS projects. We agree that the stakeholders should have the opportunity to assess the impact of each proposal within the context of its specific topic consultation.

If the IPSASB proceeds with these proposals, there would need to be more application guidance to provide a better understanding of how the COV measurement basis would be applied to inventories and intangible assets. In Australia, the measurement of tangible assets within the public sector is governed by the principles outlined in IFRS / AASB 13 *Fair Value Measurement*. The AASB developed and issued jurisdiction-specific guidance material [AASB 13 Appendix F Australian implementation guidance for not-for-profit public sector entities](#) to support application of AASB 13 [in the public sector](#). A similar approach may be used to develop the application guidance for inventories and intangible assets.

#### **COV as a current value measurement basis for inventories**

Regarding inventories to be measured at the lower of cost and COV, we are not aware of any concerns being raised around the current measurement model for inventories. Therefore, it is not clear what the problem is that the IPSASB is trying to address by introducing COV. In particular, feedback we have received notes the following:

- In terms of practical implementation considerations, one of the impacts of the proposals is the requirement to estimate the loss of service potential at the end of every reporting period, as opposed to just when there are indicators, which in the context of inventory valuation, adds cost without any clear benefits.
- In the absence of application guidance and / or practical expedients, the COV measurement basis will likely be subjective, variable and onerous for most entities.

#### **COV as a current value measurement basis for intangible assets**

For intangible assets, we support the Alternative View in the ED. We do not support the COV measurement basis for intangible assets held for their operating capacity for the following reasons:

- Removing the active market restriction for intangible assets held for operational capacity could lead to significant judgements, inconsistencies and may not faithfully reflect the asset's service potential. We do not believe the IPSASB has established a clear public sector reason for the change and removing the "active market" restriction.
- The COV measurement basis is also inconsistent with the for-profit sector's equivalent standard IAS 38 *Intangible Assets*. This misalignment could cause challenges for mixed groups. We recommend that the IPSASB follows the progress of the IASB's [comprehensive review of accounting for intangible assets](#) before making amendments to the equivalent IPSAS.
- Inconsistencies are likely to occur for intangible assets held for their financial capacity which will be measured with reference to an active market, which will restrict the ability to revalue the asset. However, intangible assets held for operating capacity are more likely to be revalued which appears counter intuitive.
- We are of the view that the arbitrary assumptions and judgements associated with COV could result in additional challenges for auditors with costs imposed on reporting entities. As an example, the proposed Application Guidance for IPSAS 31 *Intangible Assets*, paragraph AG15 acknowledges it may be unclear whether the intended primary objective of holding an intangible asset is for its operational or financial capacity, therefore judgement is needed.

Therefore, the concerns we expressed in our [joint submission to the IPSASB for EDs 76, 77, 78](#) remain applicable to the proposed extension for initial and subsequent measurement of inventories under IPSAS 12, and intangible assets under IPSAS 31. We are concerned that the IPSASB's proposals could result in minimal or no incremental benefit to users of public sector financial statements.

Overall, the existing guidance in IPSAS 46 may not support the consistent and effective application of the COV measurement basis. Introducing practical expedients (e.g., where full compliance may be impracticable) could also be beneficial in certain situations to address some of the concerns. Based on the proposed requirements in ED 90, it is difficult to assess how the cost-benefit consideration could be achieved.

According to IPSAS 46, paragraph BC62, the IPSASB's initial intention was to introduce COV as a measurement basis for property, plant and equipment which are held primarily for their operational capacity. The rationale for extending COV to other types of assets is not clearly explained in ED 90 proposed paragraph BC63A of IPSAS 46. We recommend the IPSASB provides a rationale for the extension of COV as a measurement basis for other assets in the Basis for Conclusions to the relevant standard.

**Specific Matter for Comment 2:**

**Part 1 of this ED proposes that current operational value is an applicable subsequent current value measurement basis for right-of-use assets (i.e., assets in scope of IPSAS 43, Leases).**

- (a) Do you agree that current operational value can be applied to the subsequent measurement of right-of-use assets? If you do not agree, please explain your reasoning.**
- (b) If you agree with (a), do you agree that current operational value can be applied using the current guidance in IPSAS 46 (without the income approach as one of its measurement techniques)?**

**If you do not agree please explain your reasoning.**

We agree in principle that there are opportunities to explore the application of the COV measurement basis to right-of-use (ROU) assets. However, based on the feedback we have received, additional guidance is needed to clarify how COV should be applied to ROU assets. We believe further standard setting work is required, and as such, we are not able to support the use of COV for the subsequent measurement of ROU assets until further work is undertaken to provide guidance on how the COV measurement basis can be applied to measuring ROU assets.

**Specific Matter for Comment 3:**

**Do you agree with the replacement of value in use of a non-cash-generating asset by current operational value in the definition of recoverable service amount in IPSAS 21, Impairment of Non-Cash Generating Assets, as proposed in Part 2 of this ED? Recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its current operational value.**

**If you do not agree please explain your reasoning.**

We do not agree with replacing the value-in-use (VIU) of non-cash generating assets with the COV measurement basis in the definition of recoverable service amount for the impairment test. The VIU measurement approach is a major aspect of IPSAS 21 *Impairment of Non-Cash Generating Assets* (IPSAS 21) that has been well established over several years.

Therefore, our primary concern is that this change has not been introduced through a project specific to IPSAS 21. Consequently, stakeholders are not fully considering the proposed change or its impact within the context of IPSAS 21. We are concerned that this could lead to unintended consequences. For example, we have heard that depreciated replacement cost (DRC), which can be used to calculate and estimate the VIU, is similar to the COV measurement basis. It is therefore unclear what the benefit would be to replace one similar measurement method (i.e., DRC) with another (i.e., COV). We also understand that there is limited experience in the market on applying DRC as a measurement basis. We recommend more targeted research on VIU and COV, and field testing be conducted before implementing such a fundamental change to the impairment test.