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International Federation of Accountants
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Submitted to: www.ifac.org

Dear Ross

IPSASB ED 90 Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*

Thank you for the opportunity to comment on Exposure Draft 90. We have exposed the ED in New Zealand and some New Zealand constituents may comment directly to you. Our comments have been informed by extensive outreach and consultation with public sector preparers, auditors and advisors across central and local Government in New Zealand.

We acknowledge that the intent of the proposals to introduce current operational value (COV) requirements into certain IPSAS is to provide consistent measurement requirements across IPSAS. While such consistency may be beneficial, we do not consider that this, on its own, is a sufficient rationale to change accounting standards. It is not clear from the ED what issues would be resolved by the proposed introduction of COV into the standards covered by the ED – and the benefits of these proposals (other than consistency of measurement requirements) are not clearly articulated.

Our main concerns with respect to the proposals in ED 90 are highlighted below, with more details and some recommendations included in Appendix A:

- We do not support introducing COV measurement for inventory, as we are concerned that the expected marginal benefits of this proposal would not sufficiently justify the application costs.
- We do not support introducing COV as a measurement basis for intangible assets at this time. We support the Alternative View outlined in ED 90.
- We do not agree with the proposal to specify in IPSAS 21 *Impairment of Non-Cash-Generating Assets* that the COV of a damaged asset not operable at year end is zero. We believe that this proposal would not improve the quality of information provided to users of financial statements.

Also, while we appreciate the IPSASB's efforts to clarify the application of certain aspects of the COV requirements in IPSAS 46 *Measurement* via ED 90, we recommend to also provide explanations on how COV is different to the measurement requirements it is replacing (e.g. how it is different to 'depreciated replacement cost') – to assist stakeholders in transitioning to the COV requirements and reduce transition costs. More information is included in Appendix A, under 'other comments'.

If you have any queries or require clarification of any matters in this letter, please contact Gali Slyuzberg (gali.slyuzberg@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix A

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. *The ED includes an Alternative View on adding current operational value as an additional measurement basis to the current value model in IPSAS 31.*

IPSAS 12 *Inventories*

Proposal to introduce COV for the subsequent measurement of inventory

<u>Disagreement with the proposal due to concerns about insufficient benefits to justify the change:</u>

1. We do not recommend proceeding with the proposals to introduce COV as a measurement basis for inventory, as currently drafted in the ED. While the principles of COV could theoretically be applied to inventory, the marginal benefits from the proposed change would not sufficiently justify the costs of application. The reasons for this argument are set out below.

    (a) <u>Consistency alone is not a sufficient reason for change</u>: In ED 90, paragraph BC17 in the Basis for Conclusions of IPSAS 12 notes that the proposed change will align measurement requirements for inventory with updated measurement methodology in IPSAS 46 *Measurement*. We acknowledge that in general, there are benefits in having consistent measurement requirements across accounting standards. However, we note that inventory is a different type of asset compared to property, plant and equipment (to which COV measurement requirements currently apply) – and we do not consider that achieving consistent measurement requirements across different types of assets is, on its own, a sufficient reason for changing measurement requirements in accounting standards. It is important to consider more broadly the costs and benefits of the change.

    (b) <u>The problem to be solved is unclear:</u> It is not clear what current issues or challenges would be addressed by the replacement of current replacement cost (CRC) with COV in IPSAS 12. Specifically, we note the following:

        (i) In the ED, paragraph BC17 in the Basis for Conclusions of IPSAS 12 explains that replacing CRC with COV is not expected to change measurement outcomes, as the key principles of CRC and COV are similar. Since the proposal does not seek to change the current measurement outcomes for inventory, we conclude that the existing CRC requirements are resulting in appropriate measurement outcomes.

        (ii) The Basis for Conclusions does not indicate that there are application challenges, diversity in practice, unmet user needs or other issues with the CRC requirements.

(c) Improvement in reporting not expected: The replacement of CRC with COV is also not expected to result in improvements to information reported on inventory in the financial statements, as paragraph BC17 indicates that this proposal is not expected to change measurement outcomes.

(d) Additional costs: At the same time, the replacement of CRC requirements with COV requirements could add costs for preparers of financial statements, as explained below.

(i) As COV is a new measurement basis and the COV requirements are more detailed compared to the existing CRC requirements, applying COV requirements to inventory adds costs for preparers of financial statements – e.g. costs relating to understanding and analysing the nuances between the different measurement models.

(ii) Some COV requirements and most of the COV guidance and examples in IPSAS 46 are more suited to PP&E assets. For example, paragraphs B18-B27 of IPSAS 46 set out the concepts of 'existing asset', 'existing use' and 'existing location' and include examples to explain these concepts – and all of these examples relate to PP&E. This focus on PP&E will result in challenges when applying COV requirements to inventory, which will likely lead to additional application costs.

2. In conclusion: If there are no specific issues faced by prepares or users of financial statements that would be resolved by the replacement of CRC with COV, then – considering that this proposal is also not intended to result in improved information in the financial statements – the benefits of the proposals would be limited, and would not justify the abovementioned expected costs of implementation. On this basis, we recommend that this proposal should not proceed.

If the IPSASB proceeds with the proposals: Recommendations to reduce costs and assist preparers

3. If COV requirements are introduced for the measurement of inventory, which we do not support, it would be necessary to introduce practical expedients and further application guidance specific to inventory to reduce application costs. For example:

(a) For inventory held for distribution at no charge/for a nominal charge: Introduce indicators that would require COV to be determined – similarly to the concept of impairment indicators in IPSAS 21 and IPSAS 26 – and specify that if these indicators are not present, then COV would not need to be determined. The proposed wording in paragraph 17 of ED 90 should be revised to: "Inventories held for a purpose set out in (a)-(c) below shall be measured at cost, unless there are indicators of a loss of service potential, in which case these inventories shall be measured at lower of cost and COV. This applies when the inventories are held for […]". This would mean that preparers would not need to determine the COV of inventories every year, which would reduce costs.

(b) Include guidance on how COV should be applied to inventory that is a work-in-progress/not complete at balance date (we believe additional clarity is needed in this area - refer to paragraph 14(c) of this letter for more context for this recommendation).

(c) Include examples of common public sector inventory types and considerations in measuring these using COV – for example, including an explanation that consideration of surplus capacity would generally not apply to most inventories.

Other comments on inventory

4. Should the IPSASB decide to proceed with introducing COV requirements into IPSAS 12, we have the following additional specific recommendations.

   (a) Inconsistency between the Basis for Conclusions of IPSAS 46 and IPSAS 12:

   - Proposed paragraph BC 94(b) in the Basis for Conclusions of IPSAS 46 is inconsistent with the proposed amendments to paragraph 17 of IPSAS 12. Paragraph BC94(b) of IPSAS 46 notes that COV should be applied in the subsequent measurement of inventory held *for operational capacity*. However, paragraph 17 of IPSAS 12 would require inventory to be measured at the lower of cost and COV only if the inventory is held for distribution or consumption in the process of delivering goods and services *for no charge or a nominal charge*. Some inventories held for operational capacity would not meet the criteria for COV measurement in paragraph 17 of IPSAS 12. For example, properties to be sold for an affordable (but not nominal) price as part of a social housing policy would not meet the criteria of paragraph 17, and therefore would be subsequently measured at the lower of cost and net realisable value – rather than the lower of cost and COV.
   - This inconsistency can lead to confusion for preparers. To address this, we recommend amending paragraph BC94(b) to be consistent with the requirement in paragraph 17 of IPSAS 12. We also recommend providing an explanation in BC94(b) (or another relevant paragraph) that the basis for determining the current value measurement basis is different for the subsequent measurement of inventory is different compared to PP&E, and the rationale for the difference.

   (b) Deemed cost of inventory:

   - It is currently not clear from the authoritative text of IPSAS 12 or IPSAS 46 (or any other IPSAS) how to determine the deemed cost of inventory received in a non-exchange transaction. IPSAS 12 requires entities to apply the relevant requirements in IPSAS 46 to determine deemed cost. In IPSAS 46, paragraph 10 notes that a current value measurement basis is used to determine deemed cost, and refers to the current value measurement bases described in paragraphs 23-31. None of these paragraphs specifies how a preparer should select between COV and fair value when determining deemed cost. Preparers would have to refer to the Basis for Conclusions of IPSAS 12 (paragraph BC 19) or the Basis for Conclusions of IPSAS 46 (paragraph BC 94(a)) to understand that COV should be used as deemed cost where inventory received in a non-exchange transaction is held for operational capacity.
   - To assist preparers, we recommend uplifting the relevant content of paragraph BC 19 of IPSAS 12 into the core text of the Standard, or providing direction within IPSAS 46 on how to select the appropriate current value measurement basis when determining deemed cost.

IPSAS 31 ***Intangible Assets***

Proposal to introduce COV for the subsequent measurement of intangible assets held for operational capacity

5. We do not agree with introducing COV as a measurement basis for intangible assets at this time. Our views align with those included in the Alternate View in ED 90.

<u>Concern about removing the 'active market restriction' for revaluation of intangible assets:</u>

6. We share the concern expressed in the Alternative View regarding the proposal to allow intangible assets held for operational capacity to be revalued using COV when there is no active market. This proposal is a fundamental change to existing practice, and a departure from a key principle in the accounting for intangible assets – a principle intended to safeguard the reliable measurement of intangible assets. We are concerned that the impact of this proposed change is not fully understood, nor has it been demonstrated that this change would result in appropriate financial reporting outcomes.

7. To illustrate our concern: Software systems are a common example of an intangible asset held by public sector entities in New Zealand. This includes software systems that were internally-developed or purchased several years ago. Internally-generated software tends to be specific to the entity, and as such there would not be an active market for it. The ED proposals would allow such software systems to be revalued using COV, based on the cost that the entity would incur to re-create the software system. This could have a large impact on the measurement of these assets, and the resulting information would not achieve appropriate reporting outcomes, for the following reasons.

    (a) Given the specialised nature of the software and/or the speed with which information technology develops, the subjectivity involved in determining the cost of replacing an older software system could mean that the resulting COV amount lacks relevance and/or does not provide representationally faithful information about the existing asset.

    (b) As noted in the Alternative View, there is a lack of clarity as to whether research costs that are excluded from the historical cost of an internally-generated software system should be included in its COV under the cost method. Different entities might reach different conclusions for transactions that have similar economic substance, which would negatively impact comparability.

    (c) Furthermore, as noted in the Alternative View, the challenges that exist in determining which costs to capitalise as intangible assets on initial recognition – including the challenge of distinguishing between the costs to maintain and enhance internally-generated goodwill vs costs relating specifically to the intangible assets – could also exist when determining the COV using the cost method for internally-generated (and some externally-purchased) software systems using the cost method. Again, different entities may reach different conclusions in this regard, affecting comparability.

8. In our view, the argument in paragraphs BC25-BC27 in the proposed Basis for Conclusions of IPSAS 31 does not address the concerns above, and does not justify the proposed removal of

the ‘active market restriction’ for the revaluation of intangible assets held for operational capacity. We acknowledge that in general, COV is conceptually consistent with not requiring an ‘active market restriction’, given that COV is an entity-specific entry price. However, even though fair value is an exit price based on market participants’ assumptions, IPSASs generally do not impose an ‘active market restriction’ for the revaluations of assets at fair value – with intangible assets being an exception, due to their nature. As explained in the Basis for Conclusions of IPSAS 31 in ED 90, it may not be possible to reliably determine an exit price for specialised or unique internally-generated intangible assets, for the purpose of fair value measurement. We note that determining an entry price for a unique and/or specialised internally-generated intangible assets for the purpose of COV measurement would give rise to similar concerns regarding reliability/representational faithfulness.

<u>Recommendations for further analysis regarding the ‘active market restriction’ and other concerns</u>

9. In line with the Alternative View, we recommend that the IPSASB considers the following before proceeding with the introduction of COV into IPSAS 31:

   (a) Undertake further analysis to understand the impact of allowing intangible assets held for operational capacity to be revalued at COV when there is no active market.

   (b) Wait for the IASB to further progress its project to comprehensively review the accounting requirements for intangible assets – which focuses not only on measurement of intangible assets, but on the broader aspects of accounting for these assets. There is not a clear public sector-specific rationale for departing from the IASB’s requirements for intangible assets at this stage.

   (c) Develop guidance to assist preparers in applying COV requirements to intangible assets – considering that some of the requirements and guidance for COV measurement are more suited to tangible assets such as PP&E, and would be challenging to apply to intangible assets without further guidance.

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.

Introduction of COV for the subsequent measurement of ROU assets held for operational capacity

10. We agree that in principle, COV could be an applicable current value measurement basis for right-of-use (ROU) assets held for operational capacity that are subsequently measured under the current value model in accordance with IPSAS 45.

11. However, we consider that certain aspects of determining COV for ROU assets are currently not sufficiently clear from the ED, which would lead to application challenges for preparers. We recommend expanding the guidance in the ED to cover those areas, as explained below.

    (a) Determination of COV using the cost approach for ROU assets – lack of clarity:

    - In the Basis for Conclusions of IPSAS 46, proposed paragraph BC100 says that the COV of ROU assets can be determined using either the market approach or the cost approach. However, it is not clear from the ED how the cost approach would apply to a ROU asset and how it would differ to the market approach, as explained below.
        - Proposed paragraph BC99 states that "applying the market approach would require an entity to estimate the current operational value of a right-of-use asset by discounting observable lease payments of an identical or comparable right-of-use asset in an active market". However, the ED does not explain how to apply the cost approach when determining the COV of a ROU asset.
        - IPSAS 46 describes the cost approach to determining COV as "the cost to develop or produce the identical or similar asset." However, unlike other assets such as PP&E, ROU assets are not "developed or produced" per se. Rather, all ROU assets are acquired by entering into a lease agreement.
    - We recommend explaining how the cost approach would apply in determining the COV of a ROU asset. We also recommend explaining the possible sources from which a lessee may obtain the inputs for determining the COV of a ROU asset using the cost approach.

    (b) Need for authoritative application guidance for measuring ROU assets at COV:

    To assist preparers in applying the COV requirements to ROU assets, we recommend providing application guidance on the COV measurement of ROU assets in an authoritative part of IPSAS 46 or IPSAS 43, rather than only in the Basis for Conclusions.

We acknowledge that the revaluation of ROU assets to fair value can also be challenging in the for-profit sector, and there is not much guidance on the revaluation of ROU assets in IFRS Accounting Standards®. However, the proposed guidance in paragraph BC99 in the Basis for Conclusions of IPSAS 46, as enhanced by our recommendations in the paragraph above, could be elevated from the Basis for Conclusions into an Application Guidance appendix.

(c) COV of ROU assets arising from concessionary leases – lack of clarity:

We also note that ED 90 proposes to clarify that COV does not include concessionary elements, such as a concession in a concessionary lease (paragraphs BC49A–BC49C). Considering this proposal, it is not clear how COV would be determined for a revalued ROU asset arising from a concessionary lease of a specialised asset where market rentals are not readily available. We recommend clarifying this matter to assist preparers of financial statements.

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.

Overall comment on the proposed amendments to IPSAS 21

12. We do not agree with the proposal to specify in IPSAS 21 that the COV of a damaged asset that is not operable at the measurement date is zero. We recommend that this requirement is removed, as it would not result in useful information for users of financial statements and may cause unintended consequences in the application of IPSAS 45 and IPSAS 46.

13. Having said this: In principle, COV could appropriately replace VIU in IPSAS 21 for the purpose of impairment testing. We note that:

    (a) Introducing COV as a branch of recoverable service amount appears consistent with the main principle of impairment testing, i.e. reducing the asset's carrying amount to the higher of the asset's value to the entity in operation (COV) and the amount for which the asset could be sold (fair value); and

    (b) Replacing VIU with COV in IPSAS 21 is cost-efficient for preparers that adopt COV for revaluation of PP&E under IPSAS 45 *Property, Plant and Equipment*.

Proposal to specify in IPSAS 21 that COV is zero when a damaged asset is not operable at year end (paragraphs 39C, BC48, IG4A and IE36)

14. We have the following concerns regarding the proposal to specify in IPSAS 21 that the COV of a damaged asset that is not operable at the measurement date is zero.

    (a) <u>Proposal represents change in practice that may not result in useful information:</u>

        - The implication of proposed paragraphs 39C, BC48, IG4A and IE36 in IPSAS 21 is that a damaged non-cash-generating asset that is not operable at year end would be impaired to zero, unless its fair value less costs to sell is higher. This represents a change from current practice. Currently, the recoverable service amount of damaged assets is often determined using the restoration cost approach, which is one of the approaches for determining VIU in IPSAS 21. Paragraph 48 of IPSAS 21 states that VIU using the restoration cost approach is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. Therefore, the VIU of a damaged asset that is inoperable at year-end is not necessarily zero – and if the VIU is above zero, then the asset is not impaired to zero. For example, the damaged bridge described in paragraph IE36 of ED 90 would not necessarily be impaired to zero, because its VIU as determined using the restoration cost approach may be above zero, depending on the cost to repair the bridge. However, under the ED proposals, the damaged bridge in paragraph IE36 must be impaired to zero – because the bridge's COV is zero, as it is inoperable at year end, and the bridge's fair value less costs to sell is also zero, as it cannot be sold.

- We are concerned that this change in practice for the impairment of damaged assets – specifically, the introduction of a principle that all assets that are damaged and inoperable at balance date have a COV of zero – would not provide relevant information for users of financial statements about such assets. In particular, this concern applies to damaged assets that are intended to be repaired, where the cost of repairs is relatively minor compared to the remaining service potential of the asset once repaired, as represented by the cost of replacing the asset in its undamaged state. Furthermore, this approach does not seem to align with the general principle of stewardship over public sector assets – as it would effectively remove from the financial statements all damaged assets that are inoperable at year end from the statement of financial position, even when these assets are intended to be repaired promptly and cost-efficiently, so that they continue to provide service potential in future years.

(b) <u>Inconsistency with measurement requirements in IPSAS 45 and IPSAS 46:</u>

The proposal to specify in IPSAS 21 that a damaged asset that is not operable at year end has a COV of zero is also inconsistent with the COV measurement requirements in IPSAS 46 and IPSAS 45, and could lead to confusion and unintended consequences for revaluations of PP&E, as explained below.

- IPSAS 45 requires revalued PP&E assets held for operational capacity to be measured using COV, as per the COV requirements in IPSAS 46. IPSAS 46 requires entities to consider obsolescence, including physical obsolescence, when determining COV. Obsolescence reduces the COV of an asset. However, neither IPSAS 46 nor IPSAS 45 require COV to be zero if an asset is not operable due to physical damage. It is not clear whether the requirement in IPSAS 21 that COV is zero if an asset is not operable at year end should be applied to the revaluation of PP&E and other instances of COV measurement that are not related to impairment testing. This lack of clarity could mean that a damaged asset has COV above zero for the purpose of IPSAS 45 but a COV of zero for the purpose of IPSAS 21, which could confuse preparers and lead to inconsistent application of COV.

- The following example demonstrates a possible unintended consequence of the proposal to specify in IPSAS 21 that the COV of an asset that is inoperable at year end is zero – for a PP&E asset held for operational capacity that is measured under the current value model in IPSAS 45: If the asset is damaged and is not operable at year end, but has a fair value of $10,000, then, when applying IPSAS 21 as amended by ED 90, the asset's COV would be zero, and the asset would be impaired to its fair value of $10,000. However, IPSAS 45 requires revalued PP&E assets held for operational capacity to be measured *at COV*, less subsequent depreciation and impairment losses. In applying IPSAS 45, an entity may conclude that because the asset's COV is zero under IPSAS 21, the asset's COV is also zero under IPSAS 45 (with the "less accumulated impairment loss" requirement becoming irrelevant). Therefore, the carrying amount of the asset under IPSAS 45 would zero – even though the asset's recoverable service amount based on its fair value under IPSAS 21 is higher ($10,000). This appears to be an unintended consequence.

(c) <u>Application to 'work-in-progress' inventory:</u>

The proposal that the COV of a damaged asset that is not operable at year end must be zero could have unintended consequences for the measurement of 'work in progress' inventory that is held for distribution at no charge or for a nominal charge. Such inventory would be measured at the lower of cost or COV under IPSAS 12. It is likely that work-in-progress inventory is not operable in its current state. If the same logic behind the proposed paragraphs 39C, BC48, IG4A and IE36 in IPSAS 21 is also applied to 'work-in-progress' inventory, the COV of such inventory would be zero, therefore such inventory would always be measured at zero. This would not provide the most useful information about the inventory.

<u>Recommendations:</u>

15. We recommend that the IPSASB removes the proposed requirement in IPSAS 21 that COV is zero for damaged assets that are not operable at year end.

16. If the IPSASB proceeds with introducing the abovementioned requirement, we recommend that the IPSASB clarifies the following:

(a) Whether this requirement applies in general to all COV measurement – in which case, an amendment to IPSAS 46 may be needed; and

(b) How this requirement interacts with the COV revaluation requirements in IPSAS 45.

Other comments on the proposed amendments to IPSAS 21

17. The wording of paragraph 10A in IPSAS 21 implies that for a revalued asset, whether the asset is impaired or not depends on whether the costs to sell the asset are negligible or not. This is true for assets that are revalued using fair value, but not for assets that are revalued using COV. Given that most revalued assets that are in the scope of IPSAS 21 would be revalued using COV, we recommend that the IPSASB amends this paragraph accordingly.

18. We also recommend explaining to stakeholders the difference between COV and the current 'value in use' (VIU) methods in IPSAS 21, i.e. DRC, restoration costs and the service units approach – to help stakeholders understand how the proposed replacement of VIU with COV would change the determination of impairment.

Other comments

General recommendation to explain the difference between COV and the measurement requirements it replaces

19. We appreciate the IPSASB's efforts to clarify the application of certain aspects of the COV requirements in IPSAS 46 via ED 90. We recommend to also provide explanations on how COV is different to the measurement requirements it is replacing, i.e.:

- How COV measurement using the cost approach is different to determining fair value as per the 'old' (pre-IPSAS 46) definition using the depreciated replacement cost (DRC) requirements in IPSAS 17 *Property, Plant and Equipment* – and how is it different to determining 'value in use' under the existing requirements of IPSAS 21 *Impairment of Non-Cash-Generating Assets*, and;
- How COV measurement using the market approach is different to determining fair value under the 'old' definition using market-based methods as described in IPSAS 17 and other IPSAS covering non-financial assets.

For example, it would have been useful to explain that if an entity previously determined fair value (under the 'old' definition) using DRC, similar DRC calculations could be used when determining COV using the cost approach – except that the entity may need to make adjustments for certain aspects of COV that were not specified in the previous fair value/DRC requirements (depending on how the entity previously applied DRC) and/or where the COV requirements are different to the previous fair value/DRC requirements.
Such explanation would help stakeholders in the transition from the previous fair value requirements to COV, and in understanding the impact of the proposals in ED 90 – as well as reducing transition costs.

20. Also, there are some aspects of IPSAS 46 where further clarification is needed to help with the consistent application of IPSAS 46 – specifically, with respect to the interaction between the requirements relating to obsolescence and those relating to surplus capacity, and with respect to considering restrictions on an asset's use in the context of an entry value.

Fair value disclosure requirements

21. ED 90 includes certain paragraphs across various IPSAS that require disclosures for "fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs." This wording implies that the disclosures are required not only for Level 3 fair value measurements, but also for some other types of fair value measurements that use unobservable inputs. It is not clear what are those other types of fair value measurement that are covered by these disclosure requirements, which could cause confusion for preparers. Furthermore, this wording is inconsistent with equivalent disclosure requirements in IPSAS 45 and IFRS 13 *Fair Value Measurement*. More information is included below.

Paragraphs quoted in ED 90	Comment
• IPSAS 31, para 123C(c) • IPSAS 16, para 89C(c) • IPSAS 27, para 46C(c) • IPSAS 30, para 30C(d) • IPSAS 38, para 57C(c)	These paragraphs require the disclosure of quantitative information on significant unobservable inputs for "fair value measurements categorized within Level 3 of the fair value hierarchy*, or for fair value measurements estimated using unobservable inputs*". The reference to *both* Level 3 fair value measurements *and* other types of fair value measurement that use unobservable inputs is inconsistent with the equivalent paragraph in IFRS 13 *Fair Value Measurement* (paragraph 93(d)) and in IPSAS 45 (paragraph 81(d)). The equivalent IFRS 13 and IPSAS 45 paragraphs require the abovementioned quantitative disclosure for fair value measurements categorised in Level 3, and in the case of IPSAS 45, for COV measurements estimated using unobservable inputs, but do *not* include an additional reference to fair value measurements estimated using unobservable inputs as distinct from Level 3 fair value measurements.
• IPSAS 12, para 50C(d)-(f)	These paragraphs require certain disclosures – including an opening-to-closing balance reconciliation and unrealised gains/losses – for "fair value measurements categorized within Level 3 of the fair value hierarchy, *or estimated using unobservable inputs*". The reference to two 'types' of fair value measurement in this paragraph is inconsistent with the equivalent paragraphs in IFRS 13 and IPSAS 45, in the same way as described above.

22. We recommend removing the reference to "fair value measurements estimated using unobservable inputs" in the paragraphs listed above – so that they refer only to Level 3 fair value measurements and, where appropriate, COV measurements estimated using unobservable inputs. Otherwise, we recommend explaining in the Basis for Conclusions why these fair value disclosure requirements are broader than the equivalent requirements in IFRS 13 – and what types of non-Level-3 fair value measurements would be covered by the description "fair value measurements estimated using unobservable inputs".

Proposed amendments to IPSAS 3

23. ED 90 proposes amendments to IPSAS 3, to specify that a change in the measurement *model* (i.e. a change from the cost model to the revaluation model and vice versa) is a change in *accounting policies*. We agree with the proposal to specify this in IPSAS 3. However – to provide greater clarity for preparers and to ensure consistency across IPSAS – we recommend that the IPSASB considers the following.

    (a) Subject to the comment in (b) below: We recommend specifying in the authoritative text of IPSAS 3 whether a change in the measurement *basis* (i.e. from COV to fair value and vice versa) is a change in accounting estimates or accounting policies. Proposed paragraph BC19 in the Basis for Conclusions of IPSAS 3 implies that a change in the measurement basis is a change in accounting estimates. If this is the IPSASB's intention, we recommend stating this in the authoritative text.

(b) We note that IPSAS 1 and IPSAS 3 refer to 'bases' or 'measurement bases' in the context of *accounting policies*. The definition of accounting policies in IPSAS 3 includes a reference to 'bases'. In IPSAS 1, para 132 says: "An entity shall disclose its significant accounting policies comprising: (a) The measurement basis (or bases) used in preparing the financial report […]". We recommend considering whether these paragraphs are consistent with the IPSASB's view that a change in the measurement basis is a change in accounting estimates, and whether any amendments or explanations in the Basis for Conclusions are required in this regard.

Retrospective application and transitional provisions

24. The following comment is relevant if the IPSASB proceeds to introduce COV requirements into IPSAS 12 and IPSAS 31 (which we do not support): Proposed paragraphs 51L in IPSAS 12 and 132P in IPSAS 31 require retrospective application of the proposed COV measurement requirements for inventory and intangible assets, without transitional provisions. This is inconsistent with the approach taken in IPSAS 45. When IPSAS 45 introduced COV measurement requirements for PP&E, it also required retrospective application – but it included the following transitional provisions:

    (a) If, on the initial application of IPSAS 45, there is a difference between the asset's previous carrying amount at fair value and its new carrying amount at COV (or at fair value as per the updated definition), the entity is not required to restate comparative information for this difference and may instead recognise the difference in opening accumulated surplus or deficit, i.e. within opening net assets/equity.

    (b) Regarding the requirement to measure a PP&E asset at COV on initial recognition if it was received in a non-exchange transaction and is held for operational capacity: This requirement needs to be applied only to future transactions, i.e. prospectively.

25. If the IPSASB proceeds with introducing COV requirements into IPSAS 12 and IPSAS 31, we recommend providing prepares with similar transitional relief as was provided in IPSAS 45, to avoid unnecessary costs and potential lack of relevance and representational faithfulness due to the uncertainty associated with obtaining COV measurements for prior periods.