

Ian Carruthers
Chair
IPSASB

Submitted online

Brussels, 13 October 2021

Subject: Accountancy Europe Responds to IPSASB ED (Exposure Draft) 76 and 77

Dear Mr Carruthers,

We have pleasure in enclosing our response on the public consultation of IPSASB Exposure Drafts 76 and 77.

In our detailed responses we support the positions taken by the IPSASB Board. Consequently, we don't support the *alternative views* expressed in the ED in respect of:

- the definition of *current operational value* and
- that the income approach should not be used in respect of *current operational value*.

We agree that there could be a bias towards using the income approach due to the higher perceived reliability of observable inputs, as expressed in the *alternative views*. However, we do not agree that this potential issue is sufficient to justify the income approach being excluded.

We also agree with the introduction of the 3-tier measurement hierarchy, which clarifies the measurement bases available should an entity choose to use the current value measurement model.

However, the choice of whether to use historical cost or current value can be complex and we believe that additional guidance would be useful to permit preparers to make an informed and appropriate decision.

Finally, we agree with the Board's decision to include *fair value* as a measurement basis with the same definition as in IFRS 13 *Fair Value*. This will mitigate the risk of divergences in interpretation and treatment between private sector entities engaging in similar activities.

Sincerely,



Myles Thompson

President



Olivier Boutellis-Taft

Chief Executive

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ED 76 Specific Matter for Comment 1

ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy?

If not, why not? How would you modify it?

1. We agree with the introduction of the three-tier hierarchy in respect of subsequent measurement in the proposed revised Chapter 7 of the Conceptual Framework. We believe that the three-tier hierarchy helps to clarify the measurement bases available should an entity choose the current value measurement model.
2. However, as we stated in our response to the *Measurement* consultation paper, we believe that the choice of whether to use current or historical values is an important, and often complex, decision. The proposed amendments to Chapter 7 of the Conceptual Framework do provide some information on the respective advantages, disadvantages and uses of the different measurement models - but at a very high level.
3. We note that, in this respect, the draft standard *Measurement* (ED 77) refers in note B1 of the Implementation Guidance to the principles outlined in paras 16-21 of IPSAS 21, *Impairment of Non-Cash-Generating Assets*, to determine the assets intended primary objective, and hence the appropriate measurement basis. Whilst we appreciate that this can be helpful for certain asset types, it may not be relevant for all situations where an entity may consider using the current value method for subsequent measurement.
4. Consequently, we suggest that it would be helpful to include additional guidance on how to decide whether historical cost or current value measurement models are the most appropriate for an item.
5. There is an argument that this would be best included in individual standards. However, using property as an example, the decision whether a property is to be used for its service potential or as an investment would normally be made prior to the application of IPSAS 17 Property, Plant and Equipment and IPSAS 16 Investment Property, respectively. Consequently, having the guidance in the (draft) Measurement Standard may be more logical. It could also take the form of a decision tree to make the decision-making process clearer and more structured.

ED 76 Specific Matter for Comment 2

Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13, Fair Value Measurement, in the Conceptual Framework?

If not, why not?

6. As with our response to the *Measurement* consultation paper, we agree with the inclusion of *fair value* as a measurement basis for assets and liabilities with the same definition as in IFRS 13 *Fair Value*. This will help reduce the possibilities of divergences in interpretation between public and private sector entities engaging in similar activities.
7. We also agreed that the guidance on *fair value* should be as closely aligned as possible with that contained in IFRS 13. We also proposed that, when required by public sector specificities, any divergencies made from IFRS 13 should be made obvious in the guidance.

ED 76 Specific Matter for Comment 3

Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the CF? If not, why not?

8. We agree with the Board that there is no single measurement model or basis that best meets the measurement objective. Consequently, we agree with the inclusion of both historical cost and current value measurement models in the Conceptual Framework.
9. In our opinion, IFRS 13 convergent *fair value* provides a solid framework for a non-entity-specific, exit-value based measurement basis for assets held to generate economic benefits, or held for sale. Therefore, it is appropriate that a current value measurement basis exists for those assets primarily held for their service potential.
10. Consequently, we support the inclusion in the Conceptual Framework of *current operational value* as a current value measurement basis for assets.

ED 76 Specific Matter for Comment 4

It is proposed to substitute a general description of value in use (VIU) in both cash-generating and non-cash-generating contexts, for the previous broader discussion of VIU. This is because the applicability of VIU is limited to impairments. Do you agree with this proposed change? If not, why not? How would you approach VIU instead and why?

11. We agree with the inclusion of *value in use* only as a measurement basis in the context of determining impairment of assets.
12. With the inclusion of both *fair value* and *current operational value* as measurement bases for assets, there would be little value in having *value in use* as another measurement basis for subsequent measurement of assets.
13. Equally, there is a need for a measurement basis for determining impairment of assets measured under historical cost. *Fair value* and *current operational value* are conceptually unsuitable, or too complex, for this in many circumstances.

ED 76 Specific Matter for Comment 5

Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework:

- *Market value—for assets and liabilities, and*
- *Replacement cost—for assets?*

If not, which would you retain and why?

14. We agree with the Board's proposed deletion of *market value* and *replacement cost* from the Conceptual Framework.
15. The inclusion of *fair value* and *current operational value* renders the inclusion of these other bases as superfluous and their continued inclusion may be confusing to preparers and users.

ED 76 Specific Matter for Comment 6

The IPSASB considers that the retention of certain measurement bases that were in the 2014 CF is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the CF?

- *Net selling price—for assets*
- *Cost of release—for liabilities*
- *Assumption price—for liabilities*

If not, which would you retain and why?

16. As with ED 76 SMC5, we agree with the deletion of these measurement bases because they have been superseded by other measurement bases in the proposed revision to Chapter 7. Their continued inclusion would merely cause confusion and increase the risk of non-comparability between financial statements.
17. In any event, we see no indication that the Conceptual Framework prohibits the future adoption at standards level of the bases proposed for deletion, should this be considered necessary in the future.

ED 76 Specific Matter for Comment 7

Are there any other issues relating to Chapter 7: Measurement of Asset and Liabilities in Financial Statements of the Conceptual Framework that you would like to highlight?

18. We have not identified any other issues that we would like to highlight relating to *Chapter 7: Measurement of Asset and Liabilities in Financial Statements of the Conceptual Framework*.

ED 77 Specific Matter for Comment 1

Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless:

- *That transaction price does not faithfully present relevant information of the entity in a manner*
- *that is useful in holding the entity to account, and for decision-making purposes; or*
- *Otherwise required or permitted by another IPSAS?*

If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

19. We agree that an item that qualifies for recognition shall initially be measured at its transaction price, except in the limited circumstances mentioned in the question.
20. It is relatively common in the public sector that the transaction price differs significantly from what would be the 'arms-length' price of the item. Consequently, entities may find themselves frequently having to consider whether the transaction price does not provide faithful representation, or whether it is useful in holding the entity to account or for decision making processes.
21. To some degree this issue is dealt with by the section *Transactions not Undertaken in an Orderly Market*, paras 10- 13 of ED 77.
22. However, we believe that the inclusion of further detailed guidance (and real-world examples) of situations when the transaction price is not suitable basis for initial recognition, would assist with implementation of the draft standard and improve consistency in reporting.

ED 77 Specific Matter for Comment 2

Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model.

If not, please provide your reasons, stating clearly what principles are more appropriate, and why

23. In principle, we agree that entities should select the measurement model that best suits the characteristics of the item and the objectives for which it is held. However, we do wonder whether this should be framed as an accounting choice that can be applied to most items, unless the measurement method is mandated by a specific standard.
24. Rather, it should be the characteristics of the item and its intended use that drive the decision whether to choose historical cost or current value as a measurement model. As mentioned previously, this decision may be complex in practice and high-level

guidance as exemplified in, for example, IPSAS 16, *Investment Properties*, would be helpful to preparers.

ED 77 Specific Matter for Comment 3

In response to constituents' comment letters on the Measurement CP, guidance on historical cost has been developed that is generic in nature in Appendix A).

Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why

25. We supported the inclusion of guidance on historical cost in our response to the *Measurement* consultation paper. In our opinion, the guidance is appropriate for application by public sector entities.

ED 77 Specific Matter for Comment 4

Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement?

If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.

26. We agree that no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement.

ED 77 Specific Matter for Comment 5

Do you agree current operational value is “the value of an asset used to achieve the entity’s service delivery objectives at the measurement date”?

If not, please provide your reasons, stating clearly what principles more appropriate for the public sector, and why.

27. We agree that *current operational value* is “the value of an asset used to achieve the entity’s service delivery objectives at the measurement date”.

ED 77 Specific Matter for Comment 6

Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities?

If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.

28. As mentioned in paragraph 27 above, we agree with the Board's proposed definition of *current operational value*.
29. The proposed definition is quite loose, but we assume that this is intentional - to allow the application of *current operational value* across the broad range of public sector assets held for their service potential.
30. The loose definition may increase the risk of different interpretations, and different valuation, of comparable assets used by public sector entities engaged in the same service provision. This will need to be monitored. That being said, we accept the current definition as a basis for facilitating the adoption of this measurement basis by public sector entities.
31. We believe that the guidance in Appendix B is appropriate for public sector entities and is sufficient to assist entities in implementing this basis.
32. We have identified one area where additional guidance may be useful. This is in respect of the entity specific nature of the valuation method and how it flows down the consolidation chain and what element 'control' may play in the valuation of assets.
33. For example, individual hospitals within a local authority may value their hospital asset on the assumption that it will continue to be used to deliver services in its current location, unaware that the local authority or health service has decided that it is surplus to requirements and may be closed, downscaled or turned to specialist services. This could lead to a difference in the value of the asset when consolidated.
34. This would not be an issue if there was a perfect line of communication from the controlling entity to its subsidiary entities, but this is not always the case and may not even be possible for policy reasons – can we always assume a perfect communication of policy objectives down the line to individual entities? In these circumstances we have to consider whether this is a legitimate reason for different valuations between the individual entity and consolidating entity, how the differences would be disclosed and whether this causes potential issues for the auditors.
35. Detailed calculation of *current operational value* may be complex in practice, depending on the availability and comparability of observable inputs. From the perspective of users, this complexity may hinder their understanding of the processes involved but we believe that the valuation derived from this basis will be of value to users and for the purpose of making management decisions.

ED 77 Specific Matter for Comment 7

Do you agree the asset's current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used?

If not, please provide your reasons, stating clearly why the asset should be measured at a different value.

36. We agree that the asset's *current operational value* should assume that the notional replacement will be situated in the same location as the existing asset is situated or used.
37. This is an integral concept for a measurement basis that focuses on continuous use to deliver the same service potential. It is also a key difference between the concept of highest and best use of a non-financial asset integral into the market-based *fair value* measurement basis.

ED 77 Specific Matter for Comment 8

Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis? If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value.

38. We agree that the *income* approach can be very useful as a measurement technique for assets valued using the *current operation value* basis in certain circumstances. For example, when valuing social housing, where the rent charged to tenants may be subsidised (so below market rent), the reduced income that is input into the *income approach* could provide an accurate analogue of the *current operational* value of the social housing stock.
39. We agree with the view expressed in the *alternative view* that the higher perceived reliability of *observable inputs* could lead to a bias towards using the *income approach*, perhaps inappropriately. However, we do not believe that this potential issue is sufficient grounds for the *income approach* to be excluded as a measurement method. If income is important for certain public sector assets, then it should be available as a basis for a measurement technique.

ED 77 Specific Matter for Comment 9

In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on fair value has been aligned with IFRS 13, Fair Value Measurement

Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why

40. As mentioned in paragraph 6, we agree that guidance on *fair value* has been aligned with IFRS 13, *Fair Value Measurement*. This is on the basis that there should be minimal possibility of disparate treatment of equivalent transactions between public and private sector entities.

ED 77 Specific Matter for Comment 10

In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on cost of fulfillment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfillment).

Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

41. We agree that the guidance on *cost of fulfillment* is appropriate for application by public sector entities.

ED 77 Specific Matter for Comment 11

Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77?

If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why.

42. We agree with the Board's decision that measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77. As the intent of the (draft) standard *Measurement* is to provide high level guidance on the measurement bases and the circumstances under which they are used, it is entirely consistent that detailed disclosure requirements are included in the specific IPSAS relevant to the item in question.

ED 77 Specific Matter for Comment 12

Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, Measurement?

If yes, please provide your reasons, stating clearly what the disclosures are, and why.

43. We have not identified any measurement disclosure requirement that are so fundamental that they should be included in ED 77, *Measurement*.
44. A lacuna of disclosure had been identified in of disclosing the difference between *fair value* and the carrying value of certain assets, but this has been dealt with by the disclosure requirements in ED 79, *Non-current Assets Held for Sale and Discontinued Operations*.

ED 77 Specific Matter for Comment 13

Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value.

If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.

45. We agree that current value model disclosure requirements should be applied consistently across IPSAS. We have not identified any specific situations for which certain IPSAS require more or fewer disclosure requirements.

ED 77 Specific Matter for Comment 14

Do you agree with the proposal disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSAS.

If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model

46. We agree that the disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed than those that used the current value current value model at acquisition but do not revalue at each reporting date.

ED 77 Specific Matter for Comment 15

Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy?

If not, please provide your reasons, stating clearly why disclosure requirements for inputs in the fair value hierarchy are unnecessary.

47. We agree that *fair value* disclosure requirements should include requirements to disclose inputs to the *fair value* hierarchy. We do not believe that there are public sector specific reasons why the inputs to the *fair value* hierarchy should not be disclosed, which would lead to unjustified divergence from IFRS 13.