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**RE: EXPOSURE DRAFTS –76, CONCEPTUAL FRAMEWORK UPDATE: CHAPTER 7,
MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS AND 77,
MEASUREMENT**

Thank you for the opportunity to provide our comments on the International Public Sector Accounting Board's (IPSAB) exposure drafts regarding measurement of assets and liabilities. We believe that this is a critical project for the Board to respond to users' evolving needs with respect to the application of measurement basis for assets and liabilities. This guidance will provide a strong foundation for future standards development.

Our response to your specific matters for comment on these exposure drafts are outlined below. We are generally supportive of the Board's positions in ED76 and 77, though we believe additional clarity and guidance is necessary to support consistency in application.

I would welcome the opportunity to discuss our views with you at any time.

Best regards,

A handwritten signature in black ink, appearing to read "Bailey Church". The signature is fluid and cursive, with a long, sweeping underline.

Bailey Church, CPA, CA, CIA
Chair, Global International Public Sector Accounting Standards Working Group
KPMG LLP



EXPOSURE DRAFT 76 - CONCEPTUAL FRAMEWORK UPDATE: CHAPTER 7, MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

- 1. ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy? If not, why not? How would you modify it?**

Yes, we support the measurement hierarchy proposed by IPSAS. We believe it is a logical structure, and consistent with measurement approaches currently in IPSAS. Diagram 1, at section 7.6 is particularly useful to describe the hierarchy, and how each element is related. However, we do believe that the diagram could be clearer regarding which element pertains to assets, and which to liabilities.

- 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?**

Yes, we agree with the inclusion of fair value as a measurement basis for assets and liabilities. We also support keeping the definition consistent with the existing definition in IFRS 13, to avoid conceptual inconsistencies or confusion. We agree with the added emphasis that fair value may not reflect the value of the asset to a particular entity based on its operational capacity, and that this may impact its appropriateness as a measurement basis for certain assets.

- 3. Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework? If not, why not?**

Yes, we agree with the proposed inclusion of current operational value as a measurement basis for assets. Given the challenges of applying fair value as a measurement basis for assets held primarily for their operational capacity, the concept will be useful to stakeholders. While we support the concept of current operational value, we are of the view that clearer guidance will be required for application. For example, in considering an asset's current use, should it be assumed that the asset consistently operates at optimal efficiency and levels of output, or at a level consistent with historical trends? As noted in the Exposure Draft, variation in current operational value is likely between entities for similar assets given their unique circumstances. However, further guidance from IPSAS regarding the application of this basis of measurement may reduce potential inconsistency.

- 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 the proposed change? If not, why? How would you approach VIU instead and why?**

Yes, we concur with the proposed changes to the value-in-use discussion.

- 5. Noting that ED 77, Measurement, proposes the use of the cost approach and the market approach as measurement techniques, 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?



Yes, we support the deletion of market value and replacement cost as measurement basis from the Conceptual Framework. Given the inclusion of the concepts of Current Operational Value and Fair Value as measurement bases, market value and replacement cost are no longer necessary for assets. Similarly, the concepts of fair value and cost of fulfillment for the measurement of liabilities are similar in nature to market value for liabilities.

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

- Net selling price – for assets
- Cost of release – for liabilities
- Assumption price – for liabilities

If not, which would you retain and why?

Yes, we agree with the proposed deletion of these measurement basis from the Conceptual Framework. The measurement bases proposed in Exposure Draft 76 render these concepts obsolete, and their removal will eliminate potential confusion which may arise in application. The concept of net selling price, for example, may not always be representative of fair value, which is defined as the “price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.”

- 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?**

No.

EXPOSURE DRAFT 77 - MEASUREMENT

- 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.

Yes, we agree that an item which qualifies for recognition should be initially measured at its transaction price except when the transaction prices does not faithfully present relevant information or as otherwise required or permitted by another IPSAS. We are of the view, however, that transaction price should be more broadly defined. While the existing definition as the “price paid to acquire an asset or received to assume a liability” would be appropriate for most circumstances, it would not apply to the construction or development of an asset. We would suggest that paragraph 7 on initial measurement be expanded to include a more fulsome definition of transaction price.

- 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

Yes, we agree with the IPSASB proposal to have an accounting policy choice to measure the item at historical cost or at its current value after initial measurement unless otherwise directed. We believe additional guidance is necessary though to inform this accounting policy choice, beyond what is presently provided in paragraph 18. Here, it is noted that, "an entity shall consider the characteristics of the item, the measurement objective and the monetary information being presented." Detailed guidance on which objective would support historical cost or current value would be helpful.

- 3. In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). 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

Yes, we are of the view that this guidance will be useful, and appropriate for application by public sector entities. We would suggest that A2(a) be revised to clarify that, historical cost is "...consideration given which is directly attributable to the acquisition, construction and/or development of an asset".

- 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.

Yes, we are generally of the view that no measurement techniques would be required for entities applying the historical cost measurement basis in subsequent measurement. We would recommend additional guidance with respect to changes triggering an impairment, as referenced in A4. In these circumstances, additional guidance regarding measurement techniques may be useful.

- 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 are more appropriate for the public sector, and why.

Yes, we agree with the concept of current operational value as a measurement base, and generally support the definition offered of the "value of an asset used to achieve the entity's service delivery objectives at the measurement date."

We would recommend additional clarity of the term "value of an asset" though, as this is quite vague, and could be interpreted differently by various stakeholders. B1 also references the



“current use of the asset by the entity”. We would like to see further clarity of this term as well. Should current use be interpreted as the asset operating at optimal efficiency and service potential, or in a manner reflecting trends in output over time? In this respect, further guidance would be very helpful for users. While B11 notes that “current operational value assumes the asset is used to its full capacity”, it may not be evident what level of efficiency should be assumed.

6. Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)?

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

Yes, we generally agree with the proposed definition of current operational value, though we believe additional guidance is necessary to support its application in a consistent, comparable manner across users. Please reference our response to #5 for feedback on the proposed definition, and where we believe additional clarity is required.

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.

Yes, we support the view that the asset’s current operational value should assume that the notional replacement will be situated in the same location as where the existing asset is situated or used. Location is a significant driver of notional value, and changes in this assumption could lead to wide variability in application.

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.

We are of the view that the income approach is applicable to estimate the value of an asset which is a cash generating unit. We are concerned that the income approach may result in misleading measures for non-cash generating units, which by definition do not have an objective of generating future cash flows..

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 (Appendix C: Fair Value). 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.

Yes, we support the alignment of fair value guidance with IFRS 13.

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.

Yes, we agree that the guidance on cost of fulfillment is appropriate for application by public sector entities.

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.

Yes, we support the view that measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77. Including these disclosure requirements in the applicable IPSAS will be clearer and easier to understand for users.

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.

No, we are not aware of any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, Measurement.

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.

Yes, we agree that current value model disclosure requirements should be applied consistently across IPSAS. This will enhance the consistency and quality of disclosure across IPSAS, in a manner which is more readily understood by users.

14. Do you agree with the proposed 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.

Yes, we support the view that the proposed 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. Items remeasured under the current value model present more risk and complexity from a financial reporting perspective. Our view is that users will require more disclosure to properly understand and interpret these items.



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.

Yes, we agree that fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy. This will be essential for users to properly understand how the fair value hierarchy was applied, particularly for Level III items.