

# Welch LLP<sup>®</sup>

November 12, 2021

Ross Smith, Program and Technical Director  
International Public Sector Accounting Standards Board  
277 Wellington St. West  
Toronto ON M5V 3H2

**RE: Exposure Drafts 76, 77, & 78**

Dear Ross:

We are pleased to submit our response letter to several IPSASB exposure drafts.

Overall, we support the proposals set out by the IPSASB. However, there are specific issues we would like the Board to consider before finalizing, set out in the Appendices attached to this letter:

- Appendix A – ED 76: Chapter 7 of the Conceptual Framework
- Appendix B – ED 77: Measurement
- Appendix C – ED 78: Property Plant and Equipment

We thank the Board for the opportunity to comment.

Sincerely,

**Welch LLP**



**Umar Saeed, MAcc, CPA, CA**

**Partner**

Welch LLP - Chartered Professional Accountants  
1070 - 36 Toronto Street, Toronto, Ontario, M5C 2C5  
T: 647-288-9200 ext: 412, F: 647-288-7600

cc: Dave Warren, IPSAB  
Chris Meyers, Partner, Welch  
Shawn Kelso, Partner & Director of Professional Standards, Welch

## APPENDIX A – ED 76 Specific Matters for Comment

## Chapter 7 – Conceptual Framework

**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?**

Agree.

**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?**

Agree.

**Specific Matter for Comment 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? The Exposure Draft includes an Alternative View on current operational value.**

We agree with the proposed inclusion of current operational value as a measurement basis, and in particular, we agree with the alternative view expressed in the exposure draft that being specific is going to result in achieving financial reporting objectives and qualitative characteristics in developing IPSAS. In defining a new basis of measurement, it's consistent application across different assets (and entities) will pose a challenge unless sufficient guidance is provided to assist the implementation of the concept.

**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?**

While we have no specific objections to specific matter 4, we encourage the IPSASB to consider the link between current operational value and “recoverable service amount” when assessing impairment of non-financial assets and their value in use. In our view, this would be the most pervasive application of current operational value in light of aging infrastructure, climate changes impact to infrastructure, and a public sector entity's overall reporting objectives.

**Specific Matter for Comment 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?**

Agree, provided “current operational value” is defined adequately and its relationship to replacement cost is closely described in the definitions and application guidance. No issues with replacing market value.

**Specific Matter for Comment 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?**

Agree.

**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?**

No comment.

## APPENDIX B – ED 77 Specific Matters for Comment

## Measurement

**Specific Matter for Comment 1—(paragraphs 7–16): 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.**

Agree.

One additional point of consideration we would like to highlight is that government procurement processes can obscure initial transaction prices, despite on the surface appearing to be competitive. Below are some examples for the IPSASB to consider ensuring initial transaction price considers certain public sector-specific nuances:

- For administrative ease, smaller procurements often go untendered. It may be argued that this is not a “market” transaction. Often times, new vendors with more competitive prices are ignored in favour of older vendors that are reliable.
- Government procurement requirements often exclude players from the market to meet political objectives, the most common example being one to favour a domestic solution or product versus a more competitive solution provided by a foreign supplier. If there is only one player in that market at home, can it be viewed as competitive?
- To win procurements, firms may have strategies to low-ball the bid simply to win, then charge extra at a later point in time when there is too much friction for the government to move vendors, creating non-market prices despite a competitive procurement.

We ask the IPSASB to consider whether such circumstances fall under transactions not undertaken in an orderly market? It would be unintuitive to classify these as such, as typically the view is that procurement is process that optimizes an entity’s use of market services. We also ask the IPSASB to consider whether adding such situations under paragraph 12 of the ED might lead to professional judgment regarding this matter?

**Specific Matter for Comment 2—(paragraph 17): 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.**

Agree.

It would appear that by definition, (a) historical cost less depreciation less impairment in service value and (b) current operational value would converge, if assessed each year. However, our experience finds that in practice, governments take historical cost model to be applied without annually assessing impairment, which is why values derived from (a) and (b) diverge. We find this a practical reality as there is judgment, effort, and complexity involved in calculating impairments annually.

However, if the difference between (a) and (b) above is effectively a choice on whether to reflect impairments annually or not, then we do not have a consistent measurement basis. We ask the IPSASB to consider and articulate what the conceptual difference in value would be if (a) and (b) were applied to an asset?

Consider application on PS assets like: road network, land registry system, health records management system, garbage collection (what is the cost to replace the asset v. what is the cost to replace the service?)

**Specific Matter for Comment 3—Appendix A (paragraphs A1–A6): 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.**

It would be appropriate for the concept of impairment be mentioned under subsequent measurement, consistent with chapter 7 of the Conceptual framework (ED 76). We find it odd that this is missing.

**Specific Matter for Comment 4—Appendix A (paragraphs A1–A6): 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.**

Same response as above – we believe a discussion on impairment would be appropriate (paragraph 7.26-7.27 in chapter 7 of the conceptual framework ED 76).

**Specific Matter for Comment 5—(paragraph 6): 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.**

Agree.

A few notes for the IPSASB’s consideration:

- It does appear as though the income approach is to be used as a “last resort” to measure current operational value, so perhaps it would make sense to indicate that to enhance consistency in the guidance?
- In terms of approaches to determine current operational value, the market approach and cost approach are both suitable techniques. We wonder if an alternative technique is missing that would attempt to calculate the cost to fulfil the same services as an asset does today. For example, you can purchase a fleet of garbage trucks and hire labour to collect garbage. Alternatively, you can have garbage collected by a third-party service. This would represent the cost to replace the service (and not the asset).

**Specific Matter for Comment 6—Appendix B (paragraphs B1–B41): 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.**

Agree. The guidance is great. We do agree with the Alternative View that there should be a clearer and narrower definition of current operational value as this will be an important measurement concept going forward for IPSAS.

**Specific Matter for Comment 7—Appendix B (paragraphs B6–B7): 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.**

Agree. In Canada we have many remote areas / communities where the same asset, due to logistical difficulties, will cost more because the costs to acquire, build, install, and repair must include transportation of both materials and labour at a premium. To replace an asset in Canada’s North West Territories, we must account for these transportation and premiums we pay to workers in these remote areas.

**Specific Matter for Comment 8—(paragraphs B38–B39): 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. The Exposure Draft includes an Alternative View on current operational value.**

Do not agree. It does appear as though the income approach is challenging to operationalize in applying the technique to determine current operational value.

**Specific Matter for Comment 9—Appendix C (paragraphs C1–C89): 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.**

Agree.

**Specific Matter for Comment 10—Appendix D (paragraphs D1–D48): 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.**

Agree.

**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.**

Agree, however the IPSASB could consider providing an overarching disclosure principle in the measurement section to try and make the financial statements understandable as well as risk-disclosures more meaningful. However, we recognize such a principle may be elusive.

As we account for complex financial instruments, leases, infrastructure deals, we recognize that the transaction price is our best estimate of costs upon initial recognition. However, we rely on disclosures regarding the risks related to that deal to disclose the variability of payments, the finance risk,

contingencies, etc. Disclosures are key in explaining why something appears to cost so little or so much (typically risks taken or avoided explain these discrepancies).

Additionally, there may be risks that are key to a public sector entity that do not pertain to any specific transaction or financial statement item. We will encounter more such items as we attempt to integrate climate-change risks into financial reporting. For example, a jurisdiction may be potentially liable for damages should an extreme flooding event occur because private insurance companies stopped insuring floods in certain regions. There is no specific event or transaction (or accounting standard) that would give rise to this disclosure, and yet, it might be extremely material to the financial statements.

**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.**

No comment.

**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.**

No comment.

**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.**

No comment.

**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.**

Agree. This is most valuable in the context where gains and losses result from fair values and the reader of the financial statements would find it decision-useful how observable these inputs are that resulted in a gain or loss. Otherwise, it may be a lot of work for not too much benefit.

## APPENDIX C – ED 78 Specific Matters for Comment

## Property, Plant and Equipment

**Specific Matter for Comment 1: [Draft] IPSAS [X] (ED 78), Property, Plant, and Equipment proposes improvements to the existing requirements in IPSAS 17, Property, Plant, and Equipment by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), Measurement; relocating guidance that supports the core principles in this Exposure Draft to the application guidance; and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of the Exposure Draft. Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?**

Agree. However, we wonder if the guidance would be improved with a definition of *deemed cost*?

**Specific Matter for Comment 2—(paragraphs 29-30): Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value? If not, please provide your reasons, stating clearly which current value measurement basis would best address the needs of the users of the financial information, and why.**

We do not agree that the entity should have a choice. We believe this instead be driven by the nature of the assets and their classification. For example, fair value should only be used for assets where they are a more relevant measurement base than other options.

**Specific Matter for Comment 3—(paragraph AG3): Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice? Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.**

No comment.

**Specific Matter for Comment 4—(paragraph AG5): Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice? Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.**

No comment.

**Specific Matter for Comment 5—(paragraphs 80-81 and AG44-AG45): This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably. Do you agree that such disclosure should be limited to heritage items? If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.**

No comment.

**Specific Matter for Comment 6—(paragraphs IG1-IG40): Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why.**



Agree.

**Specific Matter for Comment 7—(paragraphs IG1-IG40): Do you agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on infrastructure assets are required, and why.**

Agree.