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Submitted via website

Brussels, 13 September 2019

**Subject: Response to IPSASB Consultation Paper *Measurement***

Dear Sir or Madam,

1. We are pleased to provide our response to the IPSASB's public consultation / exposure draft on *Measurement*.
2. Accountancy Europe believes that there is value in the IPSASB providing more clarity on appropriate measurement bases for the public sector and producing detailed application guidance.
3. Some have questioned the need to produce a separate Standard. The IASB has included guidance on measurement bases in its Conceptual Framework. It could be argued that this approach provides preparers with a single place to find generic guidance before then consulting the specific Standard to deal with the choice of measurement basis and the disclosure requirements. This approach would also avoid duplicating text drawn from the IPSASB's Conceptual Framework.
4. On the other hand, there are arguments that the Conceptual Framework is not the ideal location for application guidance and that including application guidance in a separate Standard would elevate its significance. Additionally, if there were not to be a separate measurement Standard then the question would arise as to which Standard should contain the accounting treatment of transaction costs.
5. After due consideration, we support the IPSASB's decision to publish a separate Standard on measurement. We also agree with the IPSASB's Preliminary View that the Standard should provide generic guidance, with application guidance on specific transactions being included in the relevant Standard.
6. We do not agree with the proposed treatment of borrowing costs – namely, the immediate expensing of such costs when incurred. Although this is a difficult topic with differing viewpoints, on balance, we prefer that the default treatment is that such costs are capitalised. However, where the costs of capitalisation outweigh the potential benefits for users of the


financial statements or if capitalisation would impair faithful representation, we believe that an option should exist for the organisation to immediately expense borrowing costs.

7. We are not convinced that the public sector specificities are sufficient to warrant the divergent treatment of borrowing costs from that in the private sector. Many conglomerates in the private sector also have centralised financing arrangements - often with additional cross-border complexity - but are able to allocate borrowing costs across different entities within the group in a manner consistent with providing a faithful representation in their financial statements.
8. Please find below our detailed responses for the specific questions contained in the Consultation Paper.

Sincerely,



Florin Toma  
President



Olivier Boutellis-Taft  
Chief Executive

#### **ABOUT ACCOUNTANCY EUROPE**

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### Preliminary View 1 – Chapter 2 (following paragraph 2.6)

*The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why?*

9. We agree that fair value, fulfilment value, historical cost and replacement cost require application guidance.
10. However, the Conceptual Framework lists other measurement bases for assets and liabilities for which guidance has not been included in the draft. These are *net selling price* and *value in use* for assets and *market value*, *cost of release* and *assumption price* for liabilities.
11. The Conceptual Framework maps the use of measurement bases in current IPSAS and states that guidance will be provided for the 'commonly applied measurement bases'. With the exception of *value in use* – specifically excluded from the CP\ED - most of the bases excluded are not present in existing IPSAS.
12. We assume that *value in use* for assets, *market value*, *cost of release* and *assumption price* will be removed from the Conceptual Framework when the limited review is conducted. Otherwise, in our opinion, if a measurement basis is included in the Conceptual Framework as a valid measurement basis for the public sector, then application guidance for it should be included in the Measurement Standard.

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### Preliminary View 2 – Chapter 2 (following paragraph 2.6)

*The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons, and state what guidance should be included, and why.*

13. We agree with the Preliminary View that the application guidance in the Measurement Standard should be generic in nature, with transaction specific measurement guidance (such as which measurement basis to use, impairment and disclosure requirements) being included in the relevant individual accounting standards.

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### Preliminary View 3 – Chapter 2 (following paragraph 2.10)

*The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost– Application Guidance for Assets, to be complete.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons, stating clearly what you consider needs to be changed.*

14. We agree that guidance on historical cost should be derived from existing text and agree that *Appendix C: Historical Cost– Application Guidance for Assets* appears to be complete.

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#### Preliminary View 4—Chapter 2 (following paragraph 2.16)

*The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons, stating clearly what you consider needs to be changed.*

15. We agree that fair value guidance should be aligned as far as possible with that contained in IFRS 13.
16. In order to avoid confusion, we believe that it is important to indicate the source of the guidance as being directly from IFRS 13 in the final standard, as is indicated in the ED. We believe that this will strengthen the message of the value of consistency between public sector and private sector treatment of similar transactions. It also has the advantage of clarifying the origin of the guidance for those who are not familiar with private sector accounting standards.
17. We agree that *Appendix A: Fair Value – Application Guidance* appears to be complete.

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#### Preliminary View 5—Chapter 2 (following paragraph 2.28)

*The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons, stating clearly what you consider needs to be changed.*

18. We agree that guidance on fulfilment should be derived from existing text and agree that *Appendix B: Fulfilment Value – Application Guidance* appears to be complete.

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#### Preliminary View 6—Chapter 2 (following paragraph 2.28)

*The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–Application Guidance, to be complete.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons, stating clearly what you consider needs to be changed.*

19. We agree that guidance on replacement cost should be based on the concepts developed in the Conceptual Framework. We agree that *Appendix D: Replacement Cost – Application Guidance* appears to be complete.

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#### Preliminary View 7—Chapter 3 (following paragraph 3.28)

*The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please state which option you support and provide your reasons for supporting that option.*

20. In paras 3.24-3.27 the IPSASB sets out its view as to why borrowing costs should be expensed as occurred – fundamentally that the specificities of public sector funding and borrowing means that public sector borrowing is rarely specific to the construction or development of an individual asset. Consequently, whilst it may be feasible to allocate borrowings to specific assets, such allocation will often be arbitrary and is therefore unlikely to provide relevant and faithful information to the users of public sector financial statements.
21. We do not agree with this Preliminary View. There are undoubtedly difficult conceptual questions as to the appropriate treatment of borrowing costs. For example, in respect of capitalisation of borrowing costs, some question the rationale for having potentially different carrying values for the same asset depending on the project's funding model. Others point out the issues with public-private financed initiatives or special purpose vehicles using private sector accounting rules potentially showing higher asset values for the same asset compared to purely public sector entities.
22. However, we are not convinced that difficulties in attributing borrowing costs to specific projects in the public sector is sufficient reason to diverge from private sector accounting treatment. In our opinion, it is often possible to directly link borrowing costs with specific projects, particularly in the case of large infrastructure assets.
23. Even when there is not a direct causal link between borrowing and specific projects, we believe that there are ways of allocating borrowing costs to the assets that are not arbitrary but based on well-established project financing principles. Large conglomerates in the private sector face similar challenges (often made more complex by having establishments in different jurisdictions) as in many cases it is more efficient and cost effective to have intra-group pooling of financing. To deal with such situations, there are well established transfer pricing methods for allocating financing costs – such as the Comparable Uncontrolled Price (CUP) method, which uses 'arm's-length' interest rates that would be paid by independent entities for comparable transactions.
24. By failing to include borrowing costs into the overall cost of the asset, we believe that there will be a failure to match the cost of the asset to its service potential - thereby not faithfully representing costs both during the construction period and then in the period of use.
25. The immediate expensing of borrowing costs could also lead to inconsistency in treatment with other public sector costs. For example, it is conceivable that shared labour or technical resources could be used in the course of constructing the asset and it would be normal accounting treatment to allocate an appropriate share of these costs to the project in question.
26. Additionally, immediate expensing of borrowing costs reduces consistency with similar projects in the private sector. This is a major issue in jurisdictions where private funding - or mixed public-private funding – is a common means of financing public sector projects.
27. Accountancy Europe appreciates that this is a difficult area and asks that the IPSASB considers this matter in more detail. On balance, however, we believe that the benchmark treatment of borrowing costs should be to capitalise such expenses, as required in the private sector by *IAS 23 Borrowing Costs*. However, where public sector specificities make allocation of borrowing costs impractical, prohibitively expensive for the benefit obtained or would result in an accounting treatment that hampers faithful representation, we believe that an option should be available to immediately expense borrowing costs.

28. Accountancy Europe accepts that a choice in treatment of borrowing costs could reduce comparability between public sector bodies. However, comparability could be enhanced by detailed application guidance. It could also be potentially enhanced by either making the capitalisation of borrowing costs mandatory as in IAS 23 or by providing an option for the preparer to capitalise the costs, based on the specificities of how funding was received for the project and subject to appropriate disclosure.

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#### Preliminary View 8—Chapter 3 (following paragraph 3.36)

*The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:*

*Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.*

29. We agree with the IPSASB's Preliminary View and the definition of transaction costs stated in that View.

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#### Preliminary View 9—Chapter 3 (following paragraph 3.42)

*The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.*

30. We agree that transaction costs should be addressed for all IPSASs in a single location. As mentioned in the cover letter, on balance, we believe that transaction costs would be best addressed in IPSAS, Measurement.

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#### Preliminary View 10—Chapter 3 (following paragraph 3.54)

*The IPSASB's Preliminary View is that transaction costs incurred when **entering** a transaction should be:*

- *Excluded in the valuation of liabilities measured at fulfilment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Included in the valuation of assets measured at historical cost and replacement cost.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.*

31. We agree with the Preliminary View stated above. We have some additional comments that are included under Preliminary View 11 as they are relevant to both PVs.

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### Preliminary View 11 – Chapter 3 (following paragraph 3.54)

*The IPSASB's Preliminary View is that transaction costs incurred when **exiting** a transaction should be:*

- *Included in the valuation of liabilities measured at fulfilment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Excluded in the valuation of assets measured at historical cost and replacement cost.*

*Do you agree with the IPSASB's Preliminary View?*

*If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.*

32. As with PV 10, we agree with the IPSASB's Preliminary View stated above. We believe that the IPSASB has come to the right conclusions as to the situations in which transaction costs should be included and excluded for both entering and exiting a transaction.
33. However, we believe that the process by which the IPSASB came to these PVs detailed in paras 3.43 to 3.54 is not easy to understand and is overcomplicated – for example, para 3.51 refers to the IPSASB's view that '*the timing of when the transaction cost is incurred also has an impact*' but it is not apparent from what follows in the section what the impact is or how it affects the accounting outcomes shown in Figure 3.1.
34. On the other hand, we believe that the relevant section of the ED (paras 24 – 28) may be oversimplified or that certain concepts may require additional explanation to be understood by all constituents.
35. For example, additional explanation as to how entry and exit values interact with measurement bases could be desirable, as is the impact on measurement bases as to whether transactions are entity-specific.
36. Additionally, in the draft ED there is no direct link between the general discussion of transaction costs and the more detailed guidance contained in the relevant appendices A to C. The table contained in Figure 3.1 of the CF could be useful as a summary of the treatment of transaction costs for the main measurement bases – at a bare minimum, we believe that the ED should refer to the relevant appendices where generic guidance on a particular measurement basis can be found.

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### Specific Matter for Comment 1 – Chapter 2 (following paragraph 2.29)

*Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.*

*Do you agree that the list of definitions is exhaustive?*

*If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.*

37. We agree that the list of definitions appears to be exhaustive.

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### Specific Matter for Comment 2 – Chapter 3 (following paragraph 3.5)

*Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences*

*where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?*

*Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?*

38. With limited experience of IVS and GFS, we do not have a view on whether the IPSASB's conclusion is correct on the apparent similarities in measurement between IPSAS and these other standards.
39. We agree that the IPSASB should consider the relevance of the concept of Equitable Value and Synergistic Value to ascertain whether they could provide a more reliable measurement basis for specific public sector transactions.
40. However, we believe that there would need to be a clear benefit in using either basis over those already mentioned in the IPSAS Conceptual Framework and this CP, as merely adding them as alternatives for certain transactions is likely to increase complexity and reduce comparability in public sector financial reporting.

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#### Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)

*Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:*

- *The Conceptual Framework Measurement Objective;*
- *Reducing unnecessary differences with GFS;*
- *Reducing unnecessary differences with IFRS Standards; and*
- *Improving consistency across IPSAS.*

*If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.*

41. We agree that the measurement flow charts provide a helpful starting point for the IPSASB when reviewing measurement requirements in existing IPSAS and in developing new IPSAS. The visual representation of the process helps provide clarity and the approach has proven to be useful in the past.
42. In respect of Diagram 4.1 (page 38), we believe that the choice of whether to use current or historical values is an important, and often complex, decision. We wonder, therefore, whether an additional process could be added at this stage indicating how the decision would be made. If it is felt that an additional process would not benefit understanding, it would still be useful to have short guidance on the matter and / or a list of the points that would need to be considered in making the decision.