

October 22, 2021

Mr. Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board
International Federation of Accountants

Submitted via website

Re.: IPSAS Exposure Draft 77, Measurement

Dear Mr. Carruthers,

We would like to thank you for the opportunity to provide the IPSASB with our comments on the proposed International Public Sector Accounting Standard – Measurement (referred to hereinafter as “ED 77”).

Apart from the general comment in this letter we have included our responses to the various Specific Matters for Comment in the appendix to this letter.

General Comment

The term income approach is defined as a measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e. discounted) amount. We agree with the IPSASB’s definition of this term which explicitly includes cash inflows as well as outflows. However, we feel that the labeling “*income* approach” might be misleading for the public sector by suggesting that costs are not considered.

We would be pleased to provide you with further information if you have any additional questions about our response.

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Yours truly,

Melanie Sack
Executive Director

Viola Eulner
Technical Manager

Appendix: Questions for Respondents and Perspectives Requested

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.

Yes, we agree that items should be initially measured at transaction price apart from situations where the transaction price does not faithfully present relevant information and/or where a different measurement basis is otherwise required or permitted by another IPSAS.

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.

We support IPSASB's view that it is not possible to identify a single measurement model or basis that best meets the measurement objective for all types of assets and liabilities under all circumstances. Therefore, after initial measurement an accounting policy choice needs to be made by the preparer taking into account the characteristics of the asset or liability at the measurement date.

We would, however, like to point out, that we are of the opinion that at the specific standard's level, accounting policy choices should be kept at a minimum in order to achieve comparability.

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Specific Matter for Comment 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 agree that the guidance on historic cost provided in Appendix A is appropriate for application by public sector entities.

In our view, more guidance is needed for "deemed cost" which is mentioned in para. A2. (c). Further, a definition for deemed cost seems to be missing in ED 77 para. 6.

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.

According to ED 77 para. 37 a measurement technique is applied to estimate the amount at which an asset or a liability is recognized. Under the historical cost model, an asset is measured at the consideration given to acquire or the consideration received to incur a liability. For these cases, no estimation or measurement technique is needed.

However, in cases where assets are transferred in a non-exchange transaction, the deemed cost model needs to be applied. In such cases, as outlined in ED 77 para. 10, one or more current value measurement techniques are used to estimate the value of the asset as a deemed cost on initial measurement. This does not seem to be adequately reflected in the ED (see SMC 3 above).

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?

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

We agree that current operational value is the value reflecting the service potential and with that the operational capacity of an asset used by the entity to achieve their service delivery objectives.

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 (Appendix B: Current Operational Value)?

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

We understand and support the criticism formulated in the Alternative View concerning the definition not being specific or precise enough. If current operational value reflects the value of the service potential embedded in the asset, cost of replacing this service potential seems to be a reasonable proxy for the value of such an asset.

Additionally, we have some detailed comments regarding specific paragraphs in Appendix B:

- Para. B19: When identifying the least costly manner of replacement, reference could be made to the statements on economic efficiency made in the conceptual framework (CF 3.32 ff.).
- Para. B23: The use of observable and unobservable inputs does not seem to be a specific problem in determining the COV only, but in our view concerns measurement techniques in general. This should be discussed in the main part of the standard under “measurement techniques”.
- Para. B34: It seems appropriate to consider restoration costs in addition to (and not instead of) reproduction costs in the COV, because these equally determine the net asset value.

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?

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

Location is an important attribute of a public sector asset when providing services to constituents as these service providing assets normally are located near the demand for these services. If cost of replacement for an alternative asset should be used to estimate the value of service potential of an existing asset, this alternative asset therefore in our view has to bear the same attributes and characteristics as the asset to be measured.

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.

According to para B.38 (a), the income approach is an approach considering the time value of money by converting future amounts (e.g. cash flows or revenues and expenses) to a single current amount. This approach in our view is appropriate in cases where expenses and revenues are incurred over a longer period.

Furthermore, as stated in para B38 (b) especially in the public sector there might be situations where information is unavailable to support the application of the (replacement) cost or market approach because of the absence of an open and orderly market. This is for example the case for infrastructure or heritage assets.

We therefore support the use of the income approach to estimate the value of an asset measured using the current operational value.

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 (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.

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With the exception of the following points, we agree that the fair value guidance, which was aligned with IFRS 13, is appropriate:

- It is not clear why IFRS 13.34-.56 is not included in ED 77 (instead new AG143A-V in IPSAS 41). Same applies to IFRS 13.B35 (a) – (d), and to IFRS 13.70 f. (instead AG143AA f. in IPSAS 41).
- According to IFRS 13.63, valuation with prices quoted in an active market is a valuation technique. In our understanding of para. C26 ff., this seems not to be the case, as using observable prices is mentioned as an alternative to using measurement techniques. We recommend the Board to check whether this might be an unintended deviation from IFRS.

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.

Yes, we agree that the guidance on cost of fulfillment is appropriate.

However, we encourage the Board to clearly explain the public sector reason for the deviation from IFRS with regard to the "fulfillment value" (IFRS CF 6.17-.20 und IFRS CF 6.37-.39).

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.

The application of generally defined measurement bases using the measurement techniques as described in the hierarchy might differ depending on the type of assets or liabilities. Therefore, the centralized definition of disclosure requirements providing readers with specific enough information on the measurement of the different types of assets or liabilities does not seem to

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be possible. We therefore support including the disclosure requirements in the standards to which the asset or liability pertains.

However, we would support the inclusion of certain general/minimum disclosure requirements to be centrally included in ED 77, Measurement, as laid out in our answer to SCM 12.

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.

For subsequent measurement, preparers will have to make an accounting policy choice concerning the measurement model to be applied for the different types of assets or liabilities as outlined in SMC 2. Furthermore, preparers need to make a decision which measurement technique best achieves the measurement objectives under certain circumstances and as to whether one or more techniques need to be applied in order to achieve reliable values. Information on the rationale on which these accounting policy choices and the related decisions were made should be required by 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.

Yes, current value model disclosure requirements should be in general applied across IPSAS. However, depending on the type of assets or liabilities specific information might be required by single standards (e.g. for financial assets under IPSAS 41)

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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.

Subsequent measurement at current value in many cases will lead to a change of this current value compared to prior period(s), including the period of acquisition. Disclosure requirements therefore need to be more detailed in requesting information on the circumstances which led to a change in the current value of an asset or a liability compared to these previous period(s).

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.

Yes, we agree that preparers should disclose information on how they applied the fair value hierarchy.