

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

Submitted via website

25 October 2021

Comments to IPSASB's EDs 76

Dear Mr. Carruthers,

We are pleased to contribute to the improvement of the IPSASB's ED 76.

Please find attached our detailed comments to the proposed Standards.

Should you need any further information, please do not hesitate to contact us.

Sincerely,



Thomas Müller-Marqués Berger
Partner and Global Leader of Public Sector Accounting

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Detailed comments:

ED 76, Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements

SMC 1: ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy?

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

We agree with the proposed measurement hierarchy and find the hierarchy well-structured and comprehensible.

We have noted though that neither ED 76 nor ED 77 provides guidance on the selection of the measurement model. As the choice of whether to use the historical cost model and the current value model is an important, and often complex, conceptual decision, we would suggest including further guidance on those considerations.

In the context of the alignment of IPSASs with IFRSs and GFS, we are of the view that in the revised Conceptual Framework or in the Measurement Standard the IPSASB should reflect in the BCs, why the Board is of the view that the proposed measurement hierarchy contributes to the alignment of those frameworks.

SMC 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 with the same definition as in IFRS 13, Fair Value Measurement, in the IPSASB's Conceptual Framework. We welcome the alignment with IFRS. We recommend that any divergencies from IFRS 13 shall be made obvious in the guidance.

SMC 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 ED includes an Alternative View on current operational value.

Yes, we agree that for those assets primarily held for their service potential there is a need for a current value measurement basis that is based on the operational capacity (i.e. service potential) of the asset. Current operational value (COV) should be defined as a public sector specific measurement base that addresses the applicability limitations of fair value in the public sector, such as the highest and best use and the existence of an orderly market, and the fact

that fair value is an exit value with the underlying assumption of a sale. However, we do not agree with the inclusion of COV as it is currently defined. In our view, the current definition is too general and can lead to various interpretations. The lack of clarity in the definition risks not achieving the qualitative characteristics of financial reporting. Therefore, the current definition should be improved to be more specific and also consider the concept of service potential.

The alternative view proposed is not necessarily the ideal approach either, as it seems that this could further blur the theoretical distinction between a measurement basis and a measurement technique. The Alternative View sounds very similar to the cost approach. This would also make the new measurement basis too restrictive, as the IPSASB clearly intended for the new measurement basis to be, at a conceptual level, broader and potentially allow for multiple measurement methods and techniques.

With regards to para. 7.56 in ED 76 we noted that the text appears to be somewhat counter-intuitive. Measuring assets at COV suggests that an entity with assets measured at a higher value is in fact worse off, as it will consume greater costs in using that asset through depreciation etc. This is the direct opposite of what we would expect in the private sector, where assets with higher values are an advantage as they signify greater capital value on the statement of financial position and consequently the ability to leverage more secured debt etc. Such an approach may confuse users of financial statements, who traditionally consider higher asset values positively. Probably, it could just be an issue with the wording in that paragraph. We would suggest to rather state in that paragraph: "Entities with higher asset values measured at COV would be considered better off because they already hold assets that have increased in replacement cost and do not need to incur those costs in the near future to acquire or replace those assets."

SMC 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?

We agree with the IPSASB's proposal 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. Given the ambiguities in the definition of COV, we encourage the IPSASB to clarify the relationship between COV and VIU especially of non-cash generating assets.

SMC 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?

We agree with the proposed deletion of the market value measurement bases from the Conceptual Framework. In our view, the rationale would be the alignment with IFRS.

For replacement cost we would urge the IPSASB to review and clarify the relationship between replacement cost, COV and VIU, especially for non-cash generating assets. Conceptually, there might be considerable overlap between these three measurement approaches.

SMC 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?

We agree with the proposed deletion of those measurement bases from the Conceptual Framework. In our view, those measurement bases are either covered already by other measurement bases (e.g. fair value) or some of them are missing practical relevance (e.g. cost of release and assumption price).

SMC 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?

We have not identified any other issues relating to ED 76 that we would like to highlight.