

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

Submitted via website

25 October 2021

Comments to IPSASB's EDs 77

Dear Mr. Carruthers,

We are pleased to contribute to the improvement of the IPSASB's ED 77.

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 77, Measurement

SMC 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.

We agree that an item that qualifies for recognition shall initially be measured at its transaction price, except in the limited circumstances mentioned in the question as this would lead to a harmonization of the initial measurement of assets and liabilities. We suggest to include further guidance and examples when the transaction price is not suitable a basis for initial recognition in the final Standard.

SMC 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 agree with this view. However, we would suggest clarifying that after the selection of the measurement model an entity also needs to select an appropriate measurement basis in the case of the current value model. This selection shall also be part of the accounting policy choice. In addition, we agree that entities should select the measurement model that best suits the characteristics of the item and the objectives for which it is held. In our view, also the intended use of an asset can influence the accounting choice. However, this can probably be subsumed under the aspect of the objectives for which it is held.

SMC 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.

Possible EY view:

We welcome the reference to “historical cost” and agree with the generic guidance.

SMC 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.

We agree that no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement. However, we suggest the IPSASB to consider whether the component approach shall be addressed in the context of historical cost.

SMC 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 more appropriate for the public sector, and why.

We agree that the current operational value is the value of an asset used to achieve the entity’s service delivery objectives at the measurement date. We only have some doubts about the practical operationalization of COV.

SMC 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.

As outlined before, the COV definition is not clear or precise enough. In our view, the explanation in Appendix B2 (a) seems to actually work better as a definition i.e.: *“Current operational value reflects the amount an entity would incur at the measurement date to acquire its existing assets to be able to continue to achieve its present service delivery objectives”.*

Appendix B2 (b) seems unnecessary to include as part of the COV explanation, since we would not ordinarily define this measurement basis in relation to the statement of financial performance given that the amount recognized as an expense in the statement of financial performance is merely the change in value due to depreciation and impairment and consequently the general definition of depreciation and impairment should sufficiently cover assets carried at COV as well.

The calculation of COV may be complex, depending on the availability and comparability of observable inputs. Where an equivalent restricted asset is not obtainable in an orderly market at the measurement date for a price supported by observable market evidence, we were wondering about the practicability of the measurement requirements. Given that such public sector assets are often very specific in nature, entities might not be able to determine the “price of an equivalent unrestricted asset, without a reduction for the restrictions”.

SMC 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.

We agree that 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 the services must be used by the citizens directly. Otherwise, this might lead to huge disparities in terms of measurement of COV. However, if the location doesn't matter, e.g. in the case of online services, then the assessment should be made regardless of the location.

SMC 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.

In general, we are of the view that the income approach has limited applicability for determining COV. Only where public sector entities are operating on a fee basis, we would agree that the application of the income approach could make sense. Therefore, we would suggest that there should be guidance under what circumstances the income approach should be applied.

SMC 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.

We agree that the guidance is appropriate for application by public sector entities.

SMC 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.

We agree that the guidance is appropriate for application by public sector entities.

SMC 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.

As preparer's expect disclosure requirements to be included in the respective IPSAS, we agree that measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains.

SMC 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.

IFRS 13.91 et seq. provides measurement disclosure requirements that apply across IFRSs. We would suggest that the IPSASB considers having the same approach as IFRS 13.

SMC 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.

We agree that current value model disclosure requirements should be applied consistently across IPSAS. We have not identified any specific situations for which certain IPSAS require more or fewer disclosure requirements.

SMC 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.

Given that a current value measurement at acquisition is less complex, we agree that disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed.

SMC 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.

We agree that fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy, which is in line with IFRS 13.91 (an entity shall disclose: “for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.”)