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# MEASUREMENT EXPOSURE DRAFTS 76-79

CONSULTATION RESPONSE



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MANJ KALAR



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Manj has over 25 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised several jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.



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International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
Toronto  
Ontario M5V 3H2  
CANADA

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Dear IPSASB secretariat

**Measurement suite of Exposure Drafts: 76-79 inclusive**

I am delighted to share my comments on the suite of proposed Exposure Drafts relating to measurement; specifically:

- ED 76: Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements
- ED 77: Measurement
- ED 78: Property, Plant and Equipment
- ED 79: Non-Current Assets held for sale and Discontinued Operations

It is helpful to be able to review the suite of measurement exposure drafts collectively as this presents a holistic view of the proposed changes and interaction with other standards.

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

To aid understanding of the intention of any of the accounting standards it is good to refer to the conceptual framework. This ED's aim is to *improve the alignment between Chapter 7 of its Conceptual Framework and the suite of IPSAS*. In addition, the proposed changes to the IPSASB Conceptual Framework brings this into alignment with IASB's Conceptual Framework. Greater alignment helps reduce reconciliation issues between IFRS and IPSAS on consolidation at a whole of government level.

The review of fair value, as defined in IFRS 13 has been assessed to be the same in the public and private sector albeit not always. This is helpful to the preparers as well as the users of the financial statements and fits with IPSASB's strategic objective to align with IFRS.



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## **Measurement**

As more jurisdictions adopt IPSAS, it is helpful to the preparers to have principles to help determine which approach is most applicable to their local situation. This is supported with guidance and illustrations to help preparers to take the practical steps to ensure assets and liabilities are accounted for in the most appropriate fashion. The streamlining of the measurement bases will also help reduce confusion.

Whilst the alternative view to the current operational value has some merit, the proposed disclosure requirements, that is, to disclose the difference between the fair value measure provides the necessary transparency to the users of the financial statements.

## **Property, Plant and Equipment**

It is good to see that the all the previous work on heritage assets and infrastructures have been incorporated into these projects as it is logical.

Whilst the proposals build on the 2019 Consultation Paper on heritage asset responses, where respondents mostly agreed to remove the heritage scope exclusion from PPE (IPSAS 17), this is not helpful.

The proposed definition of a heritage assets requires two specific characteristics *irreplaceability* and *having restrictions and long indefinite useful lives*. However, given the nature of heritage assets, their inclusion on a jurisdiction's statement of financial position is questionable as to whether it provides meaningful insight. Many globally recognised heritage assets such as the temple at Angkor Wat, Stonehenge or The Taj Mahal are simply too difficult to measure. Moreover, where some jurisdictions may be able to value some heritage assets whilst others may not be able to, this will lead to less comparability. An enhanced disclosure for all heritage assets, not just unrecognised heritage assets would be better.

Infrastructure assets are likely to be material given their nature. The proposed standard does not provide a definition, which I think would be helpful to the preparers. The definition used in the supporting webinar, *a network or system that have long useful lives* is a good starting point.

## **Non-Current Assets held for sale and Discontinued Operations**

The proposed ED recognises that there are no significant differences between public sector and private sector non-current assets held for sale and discontinued operations, hence FRS 5 Non-current Assets Held for Sale and Discontinued Operations is applicable.



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The proposal to require additional disclosures of the fair value of non-current assets classified as held for sale measured at a lower carrying amount where material would provide useful information to users of financial statements and aid accountability.

Detailed responses to the specific matters for comment are provided in the Annex.

Finally, thank you for the opportunity to comment. Once again, thank you to the team at IPSASB in preparing the webinars to support the Eds. These are very helpful. If there are any questions, please do not hesitate to contact me.

Yours sincerely,

Manj Kalar

Principal consultant



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## **Annex 1: ED 76 Conceptual framework update, chapter 7: Measurement Specific Matters for Comment**

**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?

I agree with the proposal. This provides greater clarity and adds simplicity.

**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?

I agree with the proposal. This aids consistency and comparability and is helpful to the preparers consolidating government entities.

**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.

It is helpful to have current operational value measurement basis to reflect the reality of the asset i.e. held for service delivery hence is relevant to the public sector context. Whilst there is some merit to the alternative view, the proposed additional disclosure should help address concerns raised.

**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?

Any clarification and additional in definition and guidance is helpful to the preparers of the financial statements.

**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?

Any streamlining of the measurement bases is helpful. The new hierarchy helps the preparers and removes the need for the above measurement bases.



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**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?

Any streamlining of the measurement bases is helpful. The new hierarchy helps the preparers and removes the need for the above measurement bases.

**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

I agree with the proposals and appreciate the background material provided in the basis for conclusions.



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## **Annex 2: ED 77 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?

I agree with the proposals.

**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.

I agree with the proposals.

**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.

I agree with the proposals.

**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.

I agree with the proposals.

**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





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delivery objectives at the measurement date? If not, please provide your reasons, stating clearly what principles more appropriate for the public sector, and why. The Exposure Draft includes an Alternative View on current operational value.

I agree with the proposals.

**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.

I agree with the proposals.

**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.

I agree with the proposals.

**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

**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.

I agree with the proposals.



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**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. **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.

I agree with the proposals, this will help the preparers of the financial statements to have the measurement bases included in the relevant standard.

**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.

I agree with the proposals

**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.

I agree with the proposals.

**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.

I agree with the proposals.



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**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

I agree with the proposals.



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### **Annex 3: ED 78: Property, Plant and Equipment**

**Specific Matters 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?

No, I do not agree with this proposal. Due to the difficulty in reliably measuring heritage assets, I do not see the value of including these on the statement of financial position. A disclosure note for all heritage assets should suffice i.e. allow the previous option not to recognise heritage assets to remain.

**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.

I agree with the proposals.

**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.

The two characteristics for heritage assets proposed are broad and should ensure all heritage assets are captured. Accounting for heritage assets will remain a huge challenge as it is extremely difficult in many instances to reliably measure such assets. The time, effort, and potential cost in trying to value some heritage assets that are, by definition, deemed to be irreplaceable is questionable.

**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.



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Whilst the additional guidance and illustrations are helpful, a definition for infrastructure assets would be helpful.

**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.

All heritage assets should only require a limited disclosure as the inclusion of some heritage assets and not others on the statement of financial position, will lead to inconsistency and lack comparability.

**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.

I agree with the proposals.

**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.

I agree with the proposals.



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## **Annex 4: ED 79: Non-Current Assets held for sale, Discontinued Operations**

### **Specific Matters for Comment**

The IPSASB decided that there was no public sector specific reason to depart from the measurement requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. However, the IPSASB considers that, where materially different, disclosures of the fair value of non-current assets classified as held for sale measured at a lower carrying amount would provide useful information to users of financial statements for accountability purposes. The additional proposed disclosure is shown at paragraph 52 of this ED.

Do you agree with this disclosure proposal? If not, why not?

I agree with the proposals.