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John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ONTARIO
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Dear Mr. Stanford:

SUBJECT: Consultation Paper: *Measurement*

Thank you for the opportunity to comment on the Consultation Paper: *Measurement* issued in April 2019.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). The Government of Canada is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS are regarded as an important secondary source of generally accepted accounting principles.

Our responses to the specific matters for comment on the Consultation Paper (CP) and illustrative exposure draft (ED) are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Consultation Paper. If you require further information, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at diane.peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

Diane Peressini
Executive Director,
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c.c.: Roger Ermuth, Assistant Comptroller General of Canada

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APPENDIX

Responses to Specific Matters for Comment

Preliminary View 1—Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the fair value, fulfillment 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.

Response:
We support Preliminary View 1, and agree that application guidance for fair value, fulfillment value, historical cost and replacement cost will be useful to aid in consistent application of these commonly used measurement bases across the IPSAS suite of standards.

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.

Response:
We agree with Preliminary View 2, that generic guidance on the identified measurement bases should be included in the Measurement standard, whereas transaction specific guidance should be included in the individual IPSAS.

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.

Response:
We partially agree.

We agree that generic guidance on historical cost can be drawn from the existing text in individual standards. However, we have the following comments on the proposed guidance in Appendix C:

- Paragraph C3: Cash price equivalent (IPSAS 16.31) – we believe that a definition of this term should be included in the list of definitions (Illustrative ED, paragraph 6), as this text is no longer in the context of investment property.

- Paragraph C4: We agree that, for a non-monetary exchange, determining historical cost based on the current value of the asset given up aligns with the concept of historical cost. However, the CP states that the guidance in Appendix C is carried forward from existing IPSAS (IPSAS 17 *Property, Plant & Equipment*, paragraph 17.38 and IPSAS 16 *Investment Property* paragraph 16.36), which is not the case as the current requirement is that the transaction is measured based on the fair value of the asset acquired. In our opinion, this is a significant change to the measurement requirements which should be clearly explained in the Basis for Conclusions.

- Paragraphs C20-C21: Measurement guidance on the historical cost of financial liabilities is included in these paragraphs, consistent with the discussion in the core text on the historical cost of liabilities. However, the title of Appendix C refers to assets only, and footnote 38 to the ED states that historical cost does not apply to liabilities. We suggest that these inconsistences be resolved.

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.

Response:
We partially agree with this Preliminary View.

We agree that the fair value guidance should be aligned with IFRS 13, taking into account public sector characteristics and reporting needs.

However, we do not agree that the paragraphs in IFRS 13 relating to liabilities and entity's own equity instruments (IFRS 13.34-56, IFRS 13.70-71 and IFRS 13.B31-33) should be relocated to IPSAS 41, *Financial Instruments*. These paragraphs include guidance on the measurement of non-financial liabilities and an entity's own equity instruments, neither of which are financial instruments. Therefore, we suggest that they remain with the fair value guidance in the Measurement standard.

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.

Response:
We partially agree with this Preliminary View.

We agree that the guidance on fulfillment value should be based on the concepts in the conceptual framework and expanded for application in IPSAS. However, we do not agree with the proposed guidance on including a risk adjustment in fulfillment value measurement, outlined in Appendix B, as we believe that this requirement may result in the overstatement of liabilities.

Risk adjustment
The rationale for a risk adjustment stated in paragraph B33 of Appendix B is that "the risk adjustment conveys information to users of financial statements about the entity's perception of the effects of uncertainty about the amount and timing of cash flows that arise from the liability". We note that IPSAS 1 *Presentation of Financial Statements* requires disclosures about the sources of measurement uncertainty; this requirement already provides users with additional information on estimates that is useful for accountability and decision-making.

We understand that the purpose of the proposed risk premium is to adjust the liability to reflect the amount of compensation the entity would require so that it is indifferent between variable and fixed cash flows. However, adding a risk premium results in an estimation of the liability that is at the higher end of a range rather than a central estimate. Consequently, we question whether the risk premium provides faithfully representative and relevant information to users about the extent of the entity's obligations to be settled in the future:

- In general, we find the guidance in the illustrative ED on the risk premium for fulfillment value to be overly complex and lacking in clarity.
- We believe that adding a risk premium may conflict with the objective of the fulfillment value measurement basis, which is to reflect the costs the entity will incur in fulfilling the obligation, assuming it does so in the least costly manner. Where the fulfillment value depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.
    - In our opinion, adding a risk premium does not reflect the least costly manner to fulfill the liability, and reflects a bias in the estimate due to the entity's perception of its indifference to variable and fixed cash flows.
- We question the appropriateness of the adaptation of the guidance from IFRS 13:
    - The fair value guidance in IFRS 13 (contained in Appendix A to the illustrative ED) requires a risk adjustment because market participants would require compensation for the uncertainty inherent in the future cash flows.
    - The proposed guidance in paragraphs B14 and B15 related to a risk premium for fulfillment value requires the use of market-based assumptions that may not be relevant to a public sector entity.

- We also question the appropriateness of the adaptation of the guidance from IFRS 17 *Insurance Contracts:*
    - We note that some of the proposed text is drawn from IFRS 17 *Insurance Contracts* (IFRS 17, paragraphs B87, B90-92). However, IFRS 17 specifically requires the addition of a risk premium for non-financial risk, on the basis that financial risks are included in the estimation of the future cash flows or the discount rate.
    - Conversely, paragraph B34 of the ED states that the risk adjustment should reflect all risks associated with the liability other than general operational risk.
    - Consequently, it appears that financial risks would be double-counted by adding a risk premium to public sector liabilities measured at fulfillment value. As well, determination of whether there are other types of risks for which a risk premium could be relevant in the context of fulfillment value needs clarification.

Consequently, we believe that more guidance and discussion is required on the appropriateness of adding a risk premium for liabilities measured at fulfillment value, and that criteria be developed for identifying public sector transactions where its inclusion in the measurement of the liability is relevant. As well, the use of market-based risk adjustments may not be appropriate and, therefore, guidance on establishing a risk adjustment that is relevant to public sector entities should be developed.

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.

Response:
We partially agree.

We agree that the guidance on replacement cost should be based on the concepts in the conceptual framework and expanded for application in IPSAS. However, we have comments on the proposed guidance in Appendix D as follows:

- The intent of including guidance in the IPSAS *Measurement* is that it is generic rather than specific. Consequently, the specific guidance in Appendix D (for example, D7-D10, D16-D22) should be included in the applicable individual standards.
- Characteristics of an asset (D3, D13): Paragraph D3 states that the factors impacting the replacement cost of the asset relate to either the characteristics of the asset itself or to the intended use of the asset. However, paragraph D13 states that the characteristics of an asset include the intended use of an asset. We find this confusing and suggest that the guidance be clarified.
- Historic significance (D20) – In our opinion, it is not possible to recreate the historic significance of a building. However, in circumstances where reproducing a historic building rather than replacing it with a modern equivalent would be necessary to maintain the service potential of the historic building, reproduction costs should be considered in determining the replacement cost. We suggest that the guidance needs clarification on this point.

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 reason s for supporting that option.

Response:
We agree with the Preliminary View that all borrowing costs should be expensed.

We agree that it is appropriate to expense all borrowing costs because such costs are not a characteristic of the asset, nor do they relate to the intended use of the asset.

We considered whether option 3 (capitalization of borrowing costs when they are directly and specifically attributable to the asset) would be appropriate when the borrowing is tied to the asset; this would refute the argument against capitalization in the CP, which is that borrowing tends to be centralized by governments. However, the more important consideration is that the financing decision is not relevant to the measurement of the asset, and, therefore, we agree that borrowing costs should be expensed rather than included in the cost of the asset. We suggest that the arguments for option 4 be strengthened in this regard.

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.

Response:
We agree with the proposed definition of transaction costs, which is the same as that in IPSAS 41 *Financial Instruments*.

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.

Response:
We agree that transaction costs should be addressed in the IPSAS, *Measurement*, because it is important to consistently account for transaction costs, as appropriate, under the various measurement bases.

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 fulfillment 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.

Response:
We agree that transaction costs incurred when entering a transaction should be included in the measurement of an asset or liability when the measurement basis reflects an entity-specific entry value. Therefore, historical cost and replacement cost measurements should include transaction costs incurred on initial acquisition. Fair value measurements are market-based exit values, not entity-specific, and therefore the transaction costs on initial acquisition or issuance of the asset or liability are not relevant to this measurement basis.

However, the preliminary view should also be clear that the measurement of liabilities at historical cost includes transaction costs. This would be consistent with the guidance in IPSAS 41 *Financial Instruments,* which requires that all fees and points paid that are an integral part of the effective interest rate are included in determining amortized cost of the financial asset or liability.

Although the IPSAS, *Measurement,* refers only to selected measurement bases outlined in the conceptual framework, the "assumption price" measurement basis for liabilities is also an entity-specific entry value. This measurement basis in the context of liabilities refers to the same concept as replacement cost for assets. Therefore, consideration should be given as to whether transaction costs initially incurred on entering into the transaction should be included for liabilities that are measured under this basis.

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 fulfillment 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.

Response:
We agree that transaction costs incurred when exiting a transaction should be included in the measurement of an asset or liability when the measurement basis reflects an entity-specific exit value. Therefore, fulfillment cost measurements of liabilities should include transaction costs incurred on settling the liability. Fair value measurements are market-based, not entity-specific, and therefore the transaction costs incurred to exit a transaction are not relevant to this measurement basis.

However, the proposals do not consider other measurement bases listed in the conceptual framework that are entity-specific exit measurement bases: net selling price and value in use for assets, and cost of release for liabilities. In particular, as net selling price is generally used to measure inventory, and by definition includes the costs of sale, we believe that the IPSAS *Measurement* should confirm that transaction costs are included in this measurement basis.

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.

Response:
As noted in our response to Preliminary View 3 above, we believe that "cash price equivalent" should be included in the list of definitions. We do not have any other suggestions for the list of definitions.

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)?

Response:
We do not have any views on this specific matter for comment.

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.

Response:
We agree that the measurement methodology proposed and outlined in the assets and liabilities measurement flowcharts will provide a helpful framework to determine whether the requirements in new or existing IPSAS reflect the measurement objective in the conceptual framework. We believe that achieving the conceptual framework measurement objective is the most important factor; although the other factors listed may be relevant, these should not override the achievement of the measurement objective.

Other matters
We understand that the IPSASB intends to perform a limited scope review of the conceptual framework, which will include a review of the "market value" versus "fair value" measurement bases. We suggest that the IPSASB also reviews the other measurement bases listed in the conceptual framework that are excluded from the IPSAS *Measurement*, in particular cost of release and assumption price, to determine the circumstances in which these measurement bases would be applied.