



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

18 October 2019

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

Dear John,

CONSULTATION PAPER ON *MEASUREMENT*

The Malaysian Institute of Accountants (MIA) is pleased to provide comments on the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper (CP) on *Measurement* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

Part 1: Preliminary Views**Preliminary View 1**

The IPSASB's Preliminary View fair value, fulfillment value, historical cost and replacement cost require additional 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.

We agree with the IPSASB's Preliminary View 1 to have additional application guidance for fair value, fulfillment value, historical cost and replacement cost. However, we also believe that additional application guidance would be required for market value if IPSASB decides to retain market value as a measurement basis. Please refer to our comment on Preliminary View 4.

We also agree that aligning the International Public Sector Accounting Standard (IPSAS) fair value measurement with IFRS 13 *Fair Value Measurement* would create a significant overlap in the definitions of market value and fair value. In addition, we support the IPSASB's view on the needs of having both entry and exit values for public sector entities. Accordingly, it is critical for the IPSASB to study the differences between market value and fair value and then determine whether either one or both are relevant for public sector entities.

Preliminary View 2

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.

We agree with the IPSASB's Preliminary View 2 that the application guidance for the most commonly used measurement bases should be generic in nature.

Preliminary View 3

The IPSASB's Preliminary View is 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.

We agree with the IPSASB's Preliminary View 3 that guidance on historical cost should be derived from existing text in IPSAS and Appendix C: Historical Cost-Application Guidance for Assets to be complete.

Preliminary View 4

The IPSASB's Preliminary View is 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.

We agree with the IPSASB's Preliminary View 4 that the 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.

In Malaysia, many public sector entities provide and/or receive concessionary loans. In order to measure such loans at fair value, the present value of all future cash receipts is discounted using the prevailing market rate(s) of interest for a similar instrument (i.e. similar as to currency, term, type of interest rate and other factors) with a similar credit rating. It has been raised that public sector entities have difficulties in determining the appropriate effective rate of interest to be used given that there is no similar instrument available in the market.

We propose for the IPSASB to provide guidance on how to determine the appropriate effective rate of interest to measure the fair value of such loan at initial recognition.

We commend the IPSASB's proposal to address the overlap between market value and fair value in the Conceptual Framework Limited-Scope Review project, as stated in paragraph 2.24 of the CP.

Preliminary View 5

The IPSASB's Preliminary View is 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.

We agree with the IPSASB's Preliminary View 5 that the fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS and consider Appendix B: Fulfilment Value-Application Guidance, to be complete.

Preliminary View 6

The IPSASB's Preliminary View is replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded based on its 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.

We agree with the IPSASB's Preliminary View 6 that the replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS and consider Appendix D: Replacement Cost-Application Guidance, to be complete.

Preliminary View 7

The IPSASB's Preliminary View is 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 reasons for supporting that option.

We do not agree with IPSASB's Preliminary View 7 that all borrowing costs should be expensed rather than capitalised, with no exception for borrowing cost that are directly attributable to the acquisition, construction, or production of a qualifying asset.

We acknowledge that in the public sector, borrowing is often centralised and determined for the economic entity as a whole which may create challenges in allocating borrowing costs when they are not incurred directly by the entity constructing or developing the assets.

In Malaysia, MPSAS (which are based on IPSAS) are applied to federal and state governments, local authorities and federal statutory bodies where there are circumstances where borrowing costs may be allocated and incurred directly by these entities.

Accordingly, we believe that Option 2 which would require capitalisation of directly attributable borrowing costs to qualifying assets will be able to cater all the entities that are applying MPSAS in Malaysia. This will reduce unnecessary differences between IPSAS and International Financial Reporting Standards (IFRS). We also wish to propose that the

amount capitalised to be disclosed in the notes to the financial statements for the purpose of Government Finance Statistics (GFS) reporting.

Preliminary View 8

The IPSASB's Preliminary View is 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.

We agree with the IPSASB's Preliminary View 8 on the definition of transaction costs.

Preliminary View 9

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.

We agree with the IPSASB's Preliminary View 9 that the transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Preliminary View 10

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.

We agree with the IPSASB's Preliminary View 10.

Preliminary View 11

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.

We agree with the IPSASB's Preliminary View 11.

Part II: Specific Matters for Comment

Specific Matter for Comment 1

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.

We agree that the list of definitions is exhaustive.

Specific Matter for Comment 2

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)?

We agree that the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets.

Specific Matter for Comment 3

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 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 not, 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.

We agree that the measurement flow charts provide a helpful starting point to review measurement requirements.

However, we propose that the title in Diagrams 4.1 and 4.2 be changed to "Measurement Bases of Assets" and "Measurement Bases of Liabilities" respectively. This is because the term "subsequent measurement" in the IFRS denotes a different meaning.