



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

25 October 2021

International Public Sector Accounting Standards Board

International Federation of Accountants
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Exposure Draft 77, *Measurement*

Thank you for the opportunity to comment on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

We are pleased to submit to the Board our response below to the specific questions posed in the Exposure Draft.

Sincerely,

A handwritten signature in black ink that reads 'Lissa Lamarche'.

Lissa Lamarche, CPA, CA

Assistant Auditor General

Specific questions posed by IPSASB:

Specific Matter for Comment 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.

Yes, we agree that an item that qualifies for recognition should be initially measured at its transaction price unless one of the conditions specified above is met.

While IFRS 13, *Fair value measurement* requires fair value at initial recognition which often equals the transaction price, ED 77 is a much broader standard than IFRS 13 as it covers measurement in general and not just fair value measurements. In an exchange transaction, transaction price is often viewed as an acceptable initial measurement basis. We therefore think that transaction price in theory provides a reasonable starting point for initial recognition under all measurement bases proposed in ED 77. We think the additional guidance contained in paragraphs 10-13 will be helpful in assessing whether transaction price faithfully presents relevant information.

We also think that separating initial recognition measurement from subsequent measurement is helpful, as in many IPSAS initial measurement is different than subsequent measurement (e.g. property, plant, and equipment that is initially recorded at cost and subsequently chosen to be carried at a revalued amount such as fair value) and there may be different issues applicable to each.

Specific Matter for Comment 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.

Yes, we agree that 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. However, we do not think this accounting policy choice should be contained in the [draft] Standard since there is already guidance around making accounting policy choices in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

We note that the scope of ED 77 in paragraph 3 outlines that this standard “applies when another IPSAS requires or permits: (a) one or more of the measurement bases defined in the [draft] Standard or disclosures about one or more of these measurement bases; and (b) measurements that are based on one or more of the measurement bases (e.g. fair value less costs of disposal) or disclosures about those measurements”. In our view, this means any accounting policy choice should be outlined at the individual IPSAS level and in the absence of an IPSAS, IPSAS 3 should be consulted for selecting accounting policies. On this basis, we think it is unnecessary to include an accounting policy choice in this general measurement standard.

Specific Matter for Comment 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.

Yes, we agree that the general guidance on historical cost in Appendix A is appropriate for application by public sector entities. We think this guidance will be helpful in providing the objective of historical cost measurements and what it is versus what it is not. However, we have noted some improvements that could be made to this guidance as follows:

- Paragraphs A1-A2 discuss deemed cost in the context of historical cost which has been determined to be a subsequent measurement basis and not an initial measurement basis in this ED. Paragraph A3, however, directs you to paragraphs 7-16 which discuss transaction price and “deemed cost” in the context of initial measurement when a transaction does not take place in an orderly market. We think that these two distinct references to “deemed cost” should be reconciled to avoid confusion; and
- It is not clear whether in a deemed cost scenario you would effectively be using your subsequent measurement basis for initial measurement. In practice, we think that might be the case as there would be no need to have a distinction between transaction price, which has been determined to be unreliable or nonexistent, and subsequent measurement. In other words, your deemed cost on initial recognition takes on the attributes of your subsequent measurement basis. We think it would be helpful for IPSASB to clarify this aspect.

Specific Matter for Comment 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.

No, we do not agree that no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement. Paragraphs A1-A2 make reference to deemed cost from a subsequent measurement perspective and paragraph 10 states that one or more measurement techniques may be required to determine deemed cost on initial measurement. However, if we take the view that deemed cost (and any resulting measurement techniques) is only relevant to initial measurement and subsequent measurement at historical cost only builds off of that initial value, then yes, we could see the argument that subsequent measurement at historical cost does not require any measurement techniques. In any case, and as mentioned in our response to Specific Matter for Comment (SMC) 3, we think that clarification is needed to reconcile the deemed cost used to describe historical cost and the deemed cost used to describe initial measurement.

We note that in both PSAS and IFRS a distinction between initial measurement and subsequent measurement is only made when initial and subsequent measurement bases are different. In this ED, a deliberate distinction is made for all cases even where initial and subsequent measurement might be the same. For example, Appendix A discusses historical cost. This appendix seems to be discussing historical cost both from an initial measurement and subsequent measurement basis in paragraph A2, although for initial measurement paragraph A3 directs preparers to paragraphs 7-16. We think this may add confusion when applying the requirements, and thus we question whether this distinction is really necessary in all cases.

Specific Matter for Comment 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.

The Exposure Draft includes an Alternative View on current operational value.

We find it difficult to answer the specific question posed above in SMC 5 on the basis that, while we understand the IPSASB's objective in developing current operational value as a new measurement basis, we are not persuaded that it is needed to measure assets held for their operational capacity. As indicated in our response to SMC 3 in ED 76, we have noted a number of issues with this measurement basis as currently proposed.

On this basis, we would encourage the IPSASB to re-evaluate whether there is in fact a need for a new measurement basis or whether the existing concepts contained in IFRS 13 as it relates to determining fair value for specialized or other non-financial assets could be supplemented with additional guidance on how to apply IFRS 13 concepts to any non-financial asset that is held primarily for its operational capacity. We think that such an approach would be less complex, less costly and would lead to an increase in comparability between similar entities when measuring their non-financial assets as well as an increase in understandability, by reducing the number of different measurement bases available within comparable entities for comparable assets and within a set of financial statements, rather than a decrease. This would also better align with those public sector entities that apply IFRS. We think that if other jurisdictions have been able to apply IFRS 13 principles for use in valuing non-financial assets held for their operational capacity in their public sector entities, that this approach would be preferable to the introduction of a new current value measurement basis.

Specific Matter for Comment 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.

No, we do not agree that the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities because we do not think the definition and guidance are clear enough and, as explained above in our response to SMC 5, we are not persuaded that such a new measurement basis is needed.

Definition:

Since current operational value is not a term that is currently defined anywhere else, the definition should describe in concrete terms what the measurement basis purports to measure. The proposed and Alternative View definitions of current operational value are as follows:

- Proposed definition in ED 77.6: “the value of an asset used to achieve the entity’s service delivery objectives at the measurement date.”
- Alternative View definition proposed in ED 77.AV4: “the cost to replace the service potential embodied in an asset at the measurement date.”

We note that the current proposed definition uses the term “value” in both the term and the definition rather than explaining the basis for this value. We think this wording may be too vague to adequately explain what this measurement basis represents. If we compare this definition to those of other current value measurements outlined in ED 77 we note that they more clearly explain the basis for the measurement. For example, in ED 77.6 fair value is defined as (emphasis added) “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” and historical cost is defined as (emphasis added) “the consideration given to acquire...or the consideration received to assume an obligation...” We find that these definitions are more precise than the current proposed definition of current operational value. Therefore, we prefer the definition proposed in the Alternative View as we find it to be clearer.

Guidance:

As for the guidance in Appendix B, we note there is much less guidance provided for current operational value as compared to what is provided for fair value in Appendix C, and yet current operational value is a new concept. Should the IPSASB retain the newly proposed measurement basis of current operational value, we have the following comments to offer related to Appendix B:

- Paragraph B4: “Measuring the current use of an asset disregards potential alternative uses and any other characteristics of the asset that could maximize its market value...The current use may be, but is not necessarily, the highest and best use.” As mentioned in our response to SMC 3 in ED 76, while we agree that current operational value should not consider alternative uses such as a school being used as a condominium to maximize its market value, for example, we think that the measurement objective in ED 76.7.2 would not be met if the measurement basis does not consider alternative uses. As explained in our response to SMC 3 in ED 76, we believe that the narrower concept of alternative uses that incorporates the value derived from the asset’s ultimate disposal, if any (e.g. proceeds that could be used to invest in a more technologically advanced asset), which in turn would maximize the resources available to the public sector entity and achieve its full service potential, does have applicability for non-financial assets held for their operational capacity. Therefore, we think that the definition proposed in ED 77.AV4 which considers the cost to replace the asset could factor in the price of selling the old asset in order to maximize the service potential embodied in the asset.
- We note that examples are provided in some cases when explaining how the key aspects outlined in paragraph B5 affect the measurement of an asset’s current operational value. For example, paragraph B7 provides an example of how the current location of an asset would be reflected when applying current operational value, whereas paragraphs B8-B9 do not provide an example of how an entity-specific value would be reflected. We think that it would be helpful if IPSASB includes examples of how each key aspect would be reflected under each available current operational value measurement technique.
- Paragraph B14 indicates that restricted assets are to be measured differently depending on whether an equivalent restricted asset is obtainable in an orderly market at the measurement date. If such an asset is obtainable, the market value of such an asset would be used; we think this value would theoretically attribute a reduction in value based on the restriction. However, if such an asset is not obtainable, the asset is measured at the price of an equivalent unrestricted asset, without a reduction for the restrictions. We do not think this makes sense conceptually in the context of current operational value nor is it consistent with paragraph B15 which says that an “equivalent asset...should be an asset that reflects the same characteristics as the asset being measured.”

- Paragraph B26 refers to “identical or comparable assets” and paragraphs B27-B28 refer to “identical or similar assets” whereas paragraph B14 uses the term “equivalent assets”. For consistency and understandability, we think the wording used when describing the market approach should be consistent.
- Paragraphs B26-B28 discuss the market approach as a measurement technique, but there is no definition of market in this context. It is unclear how an active market would be defined in a public sector context for non-financial assets held for their operational capacity and whether that market would be different than a market used to determine fair value for a similar asset. We think that additional guidance in this area is needed to ensure consistency in the application of the concepts. We have raised this, as well as the need for additional guidance regarding the implication of legislative restrictions as it relates to access to a principal (or most advantageous market), in a public sector context in SMC 9 below.
- Paragraphs B26-B28 (current operational value Appendix) and C31-C32 (fair value Appendix) both allow the use of a market approach as a measurement technique. It is not fully clear how a market approach measurement technique would be applied to the current operational value measurement basis which, as indicated in ED 77.23, is an entity-specific value. We think that additional guidance and examples would be helpful in this area to ensure consistency in the application of the concepts discussed.
- Both paragraphs B29 and C33 discuss current replacement cost in the context of use of the cost approach measurement technique. It is not clear how this approach would differ, if at all, under the fair value and current operational value basis. We think this should be addressed in the guidance.
- We have concerns with regards to the applicability of the income approach as a measurement technique under a current operational value measurement basis. Refer to SMC 8 below.
- There are no illustrative examples to demonstrate how a current operational value measurement would differ from a fair value measurement. Without detailed illustrative examples, it is difficult to understand how current operational value would be measured. Therefore, we think that the IPSASB should consider adding illustrative examples to the guidance.
- Consistent with paragraph C27, paragraph B23 also requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Unlike IFRS 13, it is not clear what would be considered an observable versus unobservable input in relation to current operational value measurements. While the fair value guidance characterizes inputs into three fair value levels with Level 1 being observable and Level 3 being unobservable, we note there is no similar classification for current value measurements. We think there should be similar guidance which helps to categorize current operational value measurements in the context of the observability of inputs given the requirement in paragraph B23. Without this guidance, we think there could be inconsistency in the application of paragraph B23.

Lastly, IPSASB notes in ED 77.BC56 that it is the entity’s intent that is the clearest indicator of whether an asset is held for its operational or financial capacity which in turns drives the measurement basis. While ED 77 implementation guidance B1 directs one to consider the principles in IPSAS 21 when an asset is used for both cash-generating and non-cash-generating purposes, there seems to be no similar requirement for determining the measurement basis for an asset used only for cash-generating purposes which could result in unintended consequences in the selection of the most appropriate measurement basis. As laid out in IPSAS 21, there may be instances where a cash-generating asset does not generate a commercial return. In those circumstances, fair value may not be the most relevant measurement basis.

Specific Matter for Comment 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.

Yes, 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 should the IPSASB proceed with its proposal. As noted above in SMC 5, we do not agree with the current operational value measurement concept.

The value of an asset can change significantly based on its location. For example, a building located in an urban location may attract a higher market price than that same building located in a rural location. Since the measurement objective of the current operational value basis is meant to capture the value of an asset in achieving the entity's service delivery objectives, it seems unlikely that an alternative location for that asset could achieve the exact same service delivery objectives.

Specific Matter for Comment 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.

The Exposure Draft includes an Alternative View on current operational value.

No, we do not agree that the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis. We find the use of an income approach to be counterintuitive to a measurement basis whose objective is not based on the ability of the asset to generate cash inflows. In addition, as discussed in the Alternative View in ED 77.AV14, the income approach could result in the use of an exit price rather than an entry price; this adds further confusion to the concept of current operational value which is specifically outlined in ED 77.23 to be an entry value.

Specific Matter for Comment 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.

Yes, we agree that the guidance on fair value is appropriate for application by public sector entities. We note that it is substantively the same as the guidance provided in IFRS 13 with public sector specific examples which should be helpful when applying fair value in a public sector context. However, we think that additional guidance around the definition of 'market', as well as the implication of legislative restrictions as it relates to access to a principal (or most advantageous market), in a public sector context would also be helpful as discussed in our response to SMC 7 in ED 76. These comments also apply to current operational value if this separate measurement basis is retained.

In addition, if current operational value is not retained as a separate measurement basis, we think that additional guidance should be provided to reflect how IFRS 13 concepts can be applied as it relates to the application of highest and best use for specialized or other non-financial assets held for their operational capacity, as discussed in our response to SMC 3 in ED 76.

Specific Matter for Comment 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 have not addressed this SMC.

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.

No, we do not agree that measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77. Similar to the approach taken in IFRS 13, where there are standard measurement disclosure requirements across IPSAS, we think those requirements should be contained in the measurement standard. We think this approach works well and has a number of benefits as follows:

- Including standard measurement disclosure requirements directly in the measurement standard helps ensure consistency in disclosures, especially in those cases where the measurement standard is used in the absence of a specific standard. A lack of standardized measurement disclosure requirements may diminish comparability between similar entities and measurements, understandability for users, preparers, and valuation experts when comparing similar entities or similar assets if minimum information is not disclosed, and accountability if entities are not required to make similar disclosures for similar measurements.
- If common disclosure requirements are included in one standard, rather than multiple standards, any update(s) to these standard disclosure requirements will not result in updates being needed in all standards which is more efficient.

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.

Yes, we believe there are measurement disclosure requirements that apply across IPSAS that should be included in ED 77. We see no reason to deviate from the general disclosure approach used in IFRS 13 for fair value measurements and proposed in the IASB's Exposure Draft: Disclosure Requirements in IFRS Standards – A Pilot Approach. Therefore, at a minimum, we would expect to see similar disclosures in ED 77 as those contained in IFRS 13 and contemplated in the above-mentioned in ED for current value measurements considering that both fair value and current operational value, as proposed, use measurement techniques that are required to maximize the use of observable inputs. Some disclosure examples relevant to both fair value and current operational value include:

- General objectives of disclosure.
- Measurement techniques and inputs used to develop those measurements for items measured at current value on a recurring or non-recurring basis.
- For recurring current value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.

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.

We have not addressed this SMC.

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.

We have not addressed this SMC.

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.

Yes, we agree that fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy as this is consistent with the disclosure requirements in IFRS 13 and we do not see a reason to deviate from those requirements.