

September 27, 2019

International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: Response to Consultation Paper, *Measurement*

Thank you for the opportunity to provide input on a future International Public Sector Accounting Standard on measurement.

PSAB staff applauds the IPSASB for taking on this project, in an effort to compile the available application guidance on the various measurement bases, in one IPSAS.

Overall PSAB staff agrees with the preliminary views put forward by the IPSASB. We have provided additional comments for your consideration to some of the preliminary views and the significant matters for comment, in Appendix A. We have also provided additional comments for the IPSASB's consideration, that are outside the preliminary views or significant matters for comment, in the same Appendix. We wanted to bring to your attention two of our additional comments, which relate to the inter-relationship with the Heritage project:

- We suggest that more information about reconstruction (or "reproduction") cost be included in the description of replacement cost (for example, a "replace same asset" versus "replace same capacity" discussion) since the heritage Agenda Item 11 for the IPSASB Sept-19 meeting mentions the use of reconstruction cost to measure some heritage items.
- We suggest that the IPSASB consider amending the measurement objective in relation to heritage items, as many are held in trust or for stewardship purposes and as a result, do not easily fit under a measurement objective that references only financial and operating capacity.

The comments set out in Appendix A represent the views of PSAB staff, not those of the Public Sector Accounting Board (PSAB).

We hope that you find the comments helpful.

Kind regards,



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APPENDIX A – RESPONSES TO PRELIMINARY VIEWS AND SPECIFIC MATTERS FOR COMMENT

Preliminary View 1

Fair value, fulfillment value, historical cost and replacement cost require additional application guidance.

Agreed.

Preliminary View 2

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.

- Agreed. It would be helpful to include the above statement in the IPSAS, *Measurement*.
- We suggest specifying that both initial and subsequent measurement guidance would be addressed at the standards level, as follows:

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 **initial and subsequent** measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Preliminary View 3

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.

We have the following comments on Appendix C:

- Footnote 38 on the heading of the Appendix indicates the guidance focuses on the historical cost of assets because the consultation paper's flow chart for liability measurement indicates that historical cost is not applicable to the measurement of liabilities. We disagree with this statement for the following reasons:
 - According to the Liability Flow Chart in Diagram 4.2, historical cost is one of the options.
 - Historical cost, as a measurement attribute has been used for liabilities.
 - Your conceptual framework lists historical cost for liabilities.
 - The IASB, in its conceptual framework, also acknowledges "historical cost" as a measurement base for liabilities.

- The equivalent to historical cost for liabilities is “historical proceeds”¹.
- There is no discussion as to what happens to the historical cost value subsequent to initial measurement in the Appendix (some information is included in the body of the illustrative exposure draft). It may be helpful to include this information. An example of this information could be “Subsequent to initial measurement: (a) the historical cost of an asset may be adjusted (e.g., for amortization or impairment); or (b) the historical cost of a liability may be adjusted (e.g., to reflect the accrual of interest, the accretion of a discount or amortization of a premium); or (c) an estimated historical cost amount may be adjusted because of a change in an estimate.”
- The phrase “acquire, construct and/or develop” is introduced as a heading to paragraph C10 and then used for the remainder of the Appendix. To be consistent in the Appendix, it may be helpful to include the phrase from the start (i.e. at the start of the appendix, the phrase “to acquire or develop” is used).
- The Appendix has a section on costs incurred after the acquisition and/or development of the asset that should be excluded. It may be helpful to include guidance as to costs that could be included such as betterments.
- Appendix A, B and D start with the objective of the specific measurement base. It may be helpful to include this objective in Appendix C to be consistent with the other Appendices.
- It may be appropriate to indicate that historical cost/historical proceeds may be a known amount, because of a transaction/contract price. Or, historical cost may be an estimated amount. For example:
 - An estimate of a government’s liability for recovery assistance may be required for an event such as a natural disaster (this may mean that “fulfillment value” is a way to estimate the historical amount of a liability).
 - An estimate may also be required for an inherited asset initially accounted for, and for which no historical cost is available. The fair value ascribed to the asset at initial measurement² may be one way to estimate its historical cost, or valuation techniques may be required for such estimation.

¹ FASB Discussion Memorandum, *Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement*, FASB, December 2, 1976, pages 155, 189 and table on page 193. Page 193 defines historical proceeds as: “Initially the amount of cash (or its equivalent) received when an obligation was incurred.”

² Historical cost and fair value of an item may be the same at initial measurement. FASB Discussion Memorandum, *Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement*, FASB, December 2, 1976, page 189 states: “The initial measure of each of the five attributes may be provided by the historical exchange price and therefore initially may be identical, but subsequent measures during the period the asset or liability is held by the enterprise may differ significantly.” Page 155 notes: “Each element of financial statements has several attributes that might be measured..... That is, just as a table has several attributes that can be measured, such as length, width, height, weight, etc., an asset or liability has several attributes that can be measured.”

Preliminary View 4

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.

Agreed.

Editorial Note: In paragraph A31, consider if “A41-A42” should be replaced with “A36-A42”.

Preliminary View 5

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.

Agreed. However, we do have the following two comments:

- The definition includes an assumption that an entity will fulfill its obligations in the least costly manner. Does this assumption always make sense in the public sector? There may be policy reasons why an obligation may not be settled at the least costly amount. For example, regional development objectives may require that a costlier option be chosen. Similarly, paragraph B12. includes an assumption that the entity acts in its own economic best interest. Public sector choices may not always be in the economic best interest but may satisfy other policy objectives. We suggest the IPSASB discuss the description of fulfilment value in terms of public sector objectives to determine if the proposed definition and related text in Appendix B appropriately reflect the multiple objectives of public sector entities.
- Consider if fulfilment value is a way to estimate the “historical cost” of a liability rather than a separate measurement basis.
 - The definition of fulfilment value in paragraph 6 of the illustrative ED implies that it is a cost-related attribute as follows: “Fulfilment value is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.”
 - We question if fulfilment value is a measurement basis as it includes an assumption. Should measurement bases include assumptions? Or do only valuation or estimation techniques require assumptions as inputs for measuring an item?

Preliminary View 6

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.

We have the following comments on Appendix D:

- IPSASB may want to consider providing guidance as to what is a “significant part” identified in paragraph D8.

- Paragraph D11 refers to service potential and service capacity. Are these terms intended to be used interchangeably? If so, it may be helpful to use one term, not both. If not, it may be helpful to define both terms. Note: PSAB uses “service capacity” in the same way that IPSASB employs “financial capacity” and “operational capacity”; that is, in a more global sense to measure the capacity of the entity to do something (in this case to serve the public). In contrast, “service potential” is used in relation to the capability of individual assets to be used to provide services.

Editorial Note:

- In paragraph D6, consider if “D30-D32” should be replaced with “D31-D33”.
- In paragraph D7, consider if “D30” should be replaced with “D31”.

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?

- Current value is mentioned many times. It may be helpful to include its definition in the list of definitions.
- Reconstruction (or “reproduction”) cost is mentioned a few times in Appendix D. It may be helpful to include its definition in the list of definitions.

Specific Matter for Comment 2A

Guidance in IVS and 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?

We agree with the views expressed in Addendum B.

Specific Matter for Comment 2B

Do you agree that, in developing and 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?

Yes.

Preliminary View 7

All borrowing costs should be expenses rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Agreed.

Preliminary View 8

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 has not acquired, issued or disposed of the asset or liability.

Agreed.

For Your Consideration: Borrowing costs seem to fall into the definition of “transaction costs” in that they are incremental costs that can be directly attributable to the acquisition of an asset and may not have been incurred if the entity did not acquire the asset. It would be helpful to include in the Exposure Draft, why borrowing costs are different from transaction costs.

Preliminary View 9

Transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.

Agreed.

Preliminary View 10

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 measure at fair value; and
- included in the valuation of assets measured at historical cost and replacement cost.

Agreed.

Preliminary View 11

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.

Agreed.

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; and
- improving consistency across IPSAS?

We have the following comments on the flow charts:

- Are the charts only applicable to subsequent measurement? Can they be applied to initial measurement? If not, what is the guidance for initial measurement?
- In Diagram 4.1, is the arrow going from “continue applying historical cost, replacement cost or alternative measurement basis” to “does the current measurement basis continue to faithfully represent the asset” required?
- Paragraph 4.14 indicates that alternative measurement bases for assets held for their financial capacity include historical cost and net selling price. It may be helpful to include these alternative

bases in Diagram 4.1 in the box “consider an alternative measurement basis” under the “fair value” flow.

- Paragraph 4.15 lists alternative measurement bases for the current value of assets held for their operational capacity. Similar to the comment above, it may be helpful to include these alternative bases in Diagram 4.1 in the box ““consider an alternative measurement basis” under the current value flow.
- Diagram 4.2 and the accompanying explanations seem to imply that historical cost cannot be used if the timing and amount of settlement is uncertain at the measurement date. We would like to challenge the IPSASB and state that historical cost can also be an estimate of future sacrifice of cash flows:
 - In “An Introduction to Corporate Accounting Standards” Paton and Littleton state the following “in ideal situations cost is gauged by the amount of cash which is immediately expended to acquire the particular commodity or service involved. For many transactions, however, the payment of cash is delayed for some time and in these cases true cost is measured by the amount of cash that would have to be expended if final settlement were effected at once.”
 - In a FASB Discussion Memorandum “An Analysis of Issues Relate to Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statement and Their Measurement” the FASB indicated that historical cost, current costs and other measurement attributes may be identical at initial recognition.
 - Paragraph 18 of the illustrative exposure drafts presents an example of where historical cost is estimated.

As such the IPSASB may want to consider the following, in addition to its existing definition:

“Historical cost is the estimated amount of cash or its equivalent to be paid or other consideration to be sacrificed to acquire, construct or develop an asset.”

Other Comments for the Board’s Consideration

- **Measurement Objective:** Consider whether the measurement objective (in the conceptual framework) should include stewardship as a type of capacity in addition to financial and operating capacity. Heritage assets – especially those held in trust or for stewardship purposes – don’t fit easily into either of the financial and operating capacity categories, unless they are used for non-heritage purposes.
- **New Measurement Base:** Reconstruction (or “reproduction”) cost may be a measurement basis critical to measurement of heritage assets. It is currently mentioned only briefly as a type of replacement cost (i.e., replace same asset or replace same capacity). Consideration should be given to providing more detail on this measurement basis to ensure the Measurement IPSAS covers all key measurement bases, even those that are anticipated to be used in future IPSASs.
- **Use of “Attribute”:** Measurement “basis” and “bases” seems to be used interchangeably throughout the consultation paper and exposure draft and in different contexts. The Board may want to consider:
 - either using the terms consistently or
 - substitute “basis” or “bases” with “attribute” and “attributes”, to avoid any unnecessary confusion.

From a Canadian perspective, we use the term “measurement attribute” as “measurement “basis” is interpreted as being broader. “Measurement attribute” is defined as the feature of the asset or liability that is being measured (such as its historical cost or fair value). A dictionary³ definition of “basis” is:

- the underlying support or foundation for an idea, argument, or process.
- the system or principles according to which an activity or process is carried on.

We suggest that the term “basis”, especially with respect to measurement, might be broadly interpreted to mean both a measurement attribute and the valuation technique used to estimate it. That is, “a present value technique was the basis for measuring the item’s fair value (i.e., one of the item’s attributes)”.

As a result, in PSAB’s concepts underlying financial performance project, we have chosen to use the term “measurement attribute” rather than “measurement basis”. Our conclusion was that measurement attribute was more precise and facilitated making a distinction between what is being measured (the attribute) and how it is being measured (which may require use of a measurement technique). The FASB Discussion Memorandum, Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement, FASB, December 2, 1976, was a primary source for this conclusion. Page 155 of that Memorandum notes:

“Each element of financial statements has several **attributes** that might be measured..... That is, just as a table has several **attributes** that can be measured, such as length, width, height, weight, etc., an asset or liability has several **attributes** that can be measured.”⁴

³ <https://www.lexico.com/en/definition/basis>

⁴ The five attributes identified are:

1. Historical cost/historical proceeds
2. Current cost/current proceeds
3. Current exit value in orderly liquidation (current market value)
4. Expected exit value in due course of business (net realizable value) and
5. Present value of expected cash flows.

Present value is now known to be a measurement technique to measure an attribute, rather than a measurement attribute itself.