

Exposure Draft (ED) 76 Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements

Objective of the ED

As part of the IPSASB's focus on improving measurement guidance across IPSAS, this ED looks to enhance the alignment between Chapter 7 of its Conceptual Framework and the suite of IPSAS. This ED was developed in conjunction with ED 77, Measurement, to maximize consistency across measurement concepts.

Below are responses to the specific matters for comments under ED 76

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?

Comment: Yes, PSASB agrees with the three-tier hierarchy. It provides easy understanding of the measurement models, bases and techniques to be applied.

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?

Comment: Yes, we agree. The definition of fair value will provide uniform definition across the IPSAS suite of standards.

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?

Comment: PSASB does NOT AGREE with the inclusion of current operational value as a measurement basis. However, the disagreement arises from the definition of the current operational value which seems to lack clarity.

Specific Matter for Comment 4:
It is proposed to substitute a general description of value in use (VIU) in both cash-generating and noncash-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?

Comment: Yes, we agree as per the reasoning of paragraphs BC. 37 to BC.41

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?

Comment: PSASB agrees that these should be deleted.

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?

Comment: PSASB would retain the literature on net selling price for measurement of inventories. The reason to retain net selling price is to introduce it in the conceptual framework and refer the constituents for further guidance under IAS 2: Inventories.

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

Comment: None

Measurement Project (ED 77)

Below are responses to the specific matters for comments under ED 77

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? <ul style="list-style-type: none">• 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.

***Comment:** yes, we agree that an item that qualifies for recognition shall be initially measured at its transaction price. we also agree with the rationale set out in paragraphs 7-16 of the Exposure Draft.*

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?

***Comment:** Yes, we agree but the definition in the exposure draft should be similar to the one in other standards for example in IPSAS 13 the definition is different from what is presented in the exposure draft.*

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.

***Comment:** Yes, we agree. PSASB is in agreement with the reasoning behind current operational value in relation to specific public sector characteristics of assets and liabilities. However, paragraph 24 may be misconstrued as fair value as introduces the active market aspect which is the defining clause for fair value. We also opine that the definition of current operational value does not provide clarity for the constituents to understand its meaning and therefore may give rise to challenges at implementation.*

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.

Comment: *Yes, we agree with no further comments*

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 delivery objectives at the measurement date?
If not, please provide your reasons, stating clearly what principles more appropriate for the public sector, and why.

Comment: *Yes, we agree with no further comments.*

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.

Comment: *PSASB does not agree with the definition of the current operational value. From the definition, we opine that it is not easy for a constituent to understand how to arrive at the value as is with historical cost basis, fair value and cost of fulfillment. PSASB agrees with the alternative view in AV3 and the definition therein.*

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.

Comment: *Yes, we agree.*

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.

Comment: *PSASB agrees that income approach may be used to measure the current operational value of an asset to the extent that that asset or group of assets are cash generating. The cash generated from the asset or group of assets should also be commensurate with the operational value of the asset at the measurement date.*

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

Comment: *Yes, we agree with the definition of fair value to be harmonized with the definition in IFRS 13.*

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

Comment: *Yes, we agree.*

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.

Comment: *Yes, we agree.*

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.

Comment: *None*

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.

Comment: *Yes, we agree.*

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.

Comment: *Yes, we agree as many factors as possible and assumptions come in play during subsequent measurement. The current operational value, being an entity specific measurement also brings in a lot of judgement and management estimates that require further or more enhanced disclosures.*

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.

Comment: *Yes, we agree.*

ED 78: Property Plant and Equipment

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose improvements to the relevance, faithful representativeness, and comparability of the information that a reporting entity provides in its financial statements about property, plant, and equipment.

<i>Specific Matter for Comment 1:</i>
[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?

Comment: Yes, we agree: This will provide a consistent guide on generic measurement as proposed in ED 77

<i>Specific Matter for Comment 2—(paragraphs 29-30):</i>
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.

Comment: Yes, we agree. The ED provides sufficient guidance on the use of current value, further its well takes into consideration by allowing an entity to change from current operational value to fair value model or vice versa, is appropriate if the change results in a measurement that is more representative of the current value of the item of property, plant, and equipment. However, given our responses to ED 77 on current operational value, the definition should be changed to provide a better understanding of current operational value as a measurement basis.

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.

Comment. *Yes. PSASB considers the following additional characteristics to present complexities for heritage assets.*

1. **Uniqueness of Heritage Assets:** *Heritage assets are unique and what would considerably be a high valued asset in one community or jurisdiction may not be so in another. Placing a value on such an asset becomes difficult where there are no other assets of such nature.*
2. **Heritage assets may have economic benefit that cannot be measured reliably** *e.g. where an entity has conservation say of its archaeological site, prisons, monuments which they charge the public when accessing such sites, the value may not arise only from the fees generated from those sites since it could be higher.*

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

Comment: *None*

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

Comment: *Yes, we agree. This will provide users of financial statements with more information on such assets which are valuable but not recognized in the financial statements. However, the disclosures may be extended to items of property plant and equipment that cannot be reliably measured and do not fall in the category of heritage assets. In Kenya, there are significant assets donated to learning institutions and water service providers which are no longer in production. These items of PPE are currently in use and provide operational value to the institutions that use*

them. In some instances, obtaining a reliable measure becomes a challenge. PSASB opines that in such circumstances the disclosure on heritage items may be extended to such assets.

Specific Matter for Comment 6— (paragraphs IG1-IG40):
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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.
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Comment: *Yes: The implementation guideline will support the use of the standard.*

Specific Matter for Comment 7— (paragraphs IG1-IG40):
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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.
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Comment: *Yes: The implementation guideline will support the use of the standard.*

ED 79: Non- Current Assets Held for Sale and Discontinued Operations

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about non-current assets that are held for sale and discontinued operations.

<i>Specific Matter for Comment</i>
<p>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.</p> <p>Do you agree with this disclosure proposal? If not, why not?</p>

Comment: *Yes: This additional disclosure provides more information with respect to the value of the assets held for sale especially where the asset is measured at a lower carrying amount than its fair value*