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International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Submitted to: www.ipsasb.org

Submission on Exposure Drafts ED 76, ED 77, ED 78, and ED 79

Thank you for the opportunity to comment on the following International Public Sector Accounting Standards Board's (IPSASB's) Exposure Drafts:

- ED 76 *Proposed Update to Conceptual Framework Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*;
- ED 77 *Measurement*;
- ED 78 *Property, Plant, and Equipment*; and
- ED 79 *Non-current Assets Held for Sale and Discontinued Operations*.

The Auditor-General is responsible for auditing all New Zealand public entities. Public entities in the New Zealand public sector include public benefit entities and for-profit entities. We provide the New Zealand Parliament and the public with independent assurance about whether public entities are operating and accounting for their performance as intended.

General comments about the proposed standard

We support the IPSASB's proposals, as set out in the Exposure Drafts, to:

- Identify, in the Conceptual Framework, the measurement concepts that guide the IPSASB in the selection of measurement bases for International Public Sector Accounting Standards (IPSAS) and by preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in IPSAS. (ED 76)

- Issue a standard to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities and identify approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting. (ED 77)

- Make improvements to the relevance, faithful representation and comparability of the information that a reporting entity provides in its financial statements about property, plant, and equipment and prescribe their accounting treatment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment. (ED 78)

- Make improvements to the relevance, faithful representation 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, and specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. (ED 79)

The proposals in these exposure drafts are extensive and will require most public entities to change the way they account for many of their assets. We ask that the IPSASB give preparers (and valuers) sufficient time to prepare and implement these proposals by ensuring that these proposed standards do not come into effect at the same time as the proposed standards for leases and revenue.

Specific comments about the proposed standards

We note the Alternative View in both ED 76 and ED 77 in relation to current operational value. We strongly agree with the concerns raised in the Alternative View in both the exposure drafts, in particular:

- The definition of current operational value – we prefer the more precise, cost-based definition proposed in the Alternative View as it provides a clearer concept of the measure and supports the measure as an entry value;
- The guidance for current operational value – we found the guidance to be inconsistent regarding the treatment of surplus capacity, restrictions, and obsolescence when deriving an amount for current operational value; and
- The income approach as a measurement technique for current operational value – we disagree with the use of the income approach as a measurement technique for deriving current operational value as it is inconsistent with the entry value concept of current operational value and could potentially significantly misstate the value of the asset.

The appendices to our letter discuss these further and set out our responses to the Specific Matters for Comment from the exposure drafts:

- Appendix A: ED 76 *Proposed Update to Conceptual Framework Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*;
- Appendix B: ED 77 *Measurement*;
- Appendix C: ED 78 *Property, Plant, and Equipment*; and
- Appendix D: ED 79 *Non-current Assets Held for Sale and Discontinued Operations*.

If you have any questions about our submission, please contact Brett Story, Associate Director Technical, at brett.story@auditnz.parliament.nz or Lay Wee Ng, Technical Specialist, at laywee.ng@oag.parliament.nz.

Nāku noa, nā

Greg Schollum
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Appendix A: Responses to Specific Matters for Comment to Exposure Draft 76 *Proposed Update to Conceptual Framework Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*

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?*

We agree with the three-tier measurement hierarchy for the subsequent measurement of assets and liabilities. It is useful to guide the selection of an appropriate measurement basis to meet the measurement objective.

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?*

We agree with the proposed inclusion in the Conceptual Framework of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13 *Fair Value Measurement*. It is important for the same term in IFRS and IPSAS to have the same meaning to avoid confusion.

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.*

We do not agree with the proposed definition of current operational value.

Paragraph 7.48 of ED 76 defines current operational value as:

> *The* <u>*value*</u> *of an asset used to achieve the entity's service delivery objectives at the measurement date*. [Emphasis added]

Although we do not agree with the proposed definition, we think inclusion in the Conceptual Framework of current operational value as a measurement basis for assets is appropriate. It is useful to have a current cost measure for both specialized assets and non-specialized assets that are primarily held for operational capacity.

We agree with the Alternative View that:

- The proposed definition is unclear (and could include entry or exit values);
- The lack of clarity in the definition risks not achieving the qualitative characteristics of financial reporting; and
- The definition should focus on the cost of replacing an asset used for its service potential.

The Alternative View proposes the following definition of current operational value:

> *Current Operational Value is the <u>cost</u> to replace the service potential embodied in an asset at the measurement date.* [Paragraph AV3, emphasis added]

We support the more precise, cost-based definition of current operational value set out in the Alternative View. It provides a clearer concept of the measure and supports the measure as an entry value.

Historical cost and fair value are clearly defined in the ED 76 and give an indication of how the measures are derived and whether they are entry or exit values. For historical cost, it is the "*<u>consideration given</u> to acquire or develop an asset*" (paragraph 7.25, emphasis added), and for fair value, it is the "*<u>price</u> that would be <u>received</u> to sell an asset*" (paragraph 7.36, emphasis added). They give an indication of the measurement technique(s) needed to estimate the amount of the asset under the selected measurement basis.

Comparatively, the proposed definition of current operational value as the "*<u>value</u> of an asset used to achieve the entity's service delivery objectives*" (paragraph 7.48, emphasis added) is vague. It does not define the measure but describes what the asset is used for. As such, it does not give an indication of how the measure is to be derived or whether it is an entry or exit value. This has the potential to confuse and will not be a useful means for entities to select the most appropriate measurement technique to meet the measurement objective or the qualitative characteristics.

We strongly agree with the Alternative View that the focus should be on the <u>cost</u> of replacing an asset that is used for its service potential, reflecting the concept that the measure is an entry value. This is consistent with paragraph 25 of ED 77 *Measurement* which, in comparing current operational value to fair value, states:

> *Current operational value differs from fair value because it:*
>
> *(a) Is <u>explicitly an entry value</u> and includes all the costs that would necessarily be incurred when obtaining the asset;*
> *(b) Reflects the value of an asset <u>in its current use</u>, rather than the asset's highest and best use …; and*
> (c) *Is entity-specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market…* (Emphasis added)

A definition that is focused on an entry value would more clearly reflect the cost of replacing the existing service potential of an asset to an entity that is held primarily for its operational capacity. It would give an appropriate measure that reflects the asset's service potential in its current use.

The definition of current operational value should be clear that exit values are not appropriate measurement techniques to estimate an entity's existing service potential to the entity. In this regard, we disagree with the statement in paragraph 7.19 of ED 76 that exit values reflect "…*<u>the amount derived from use of the asset</u> and the economic benefits from sale*" (emphasis added). We consider that "*the amount derived from use of the asset*" is a cost concept that is relevant to current operational value. Including it as part of exit value confuses the concept of entry and exit values. We recommend that paragraph 7.19 of ED 76 be reworded as follows:

> *Measurement bases provide either entry or exit values. For assets, entry values reflect the cost of acquisition, construction, or development. Exit values reflect the amount <u>of economic benefits</u> derived from <u>their</u>~~use of the asset and the economic benefits from~~ sale.*

(Also see our further comments on current operational value in ED 77 under Specific Matters 5 and 6 on the definition of current operational value, Specific Matter 7 on surplus capacity, obsolescence and restrictions and Specific Matter 8 on the income approach.)

Specific Matter for Comment 4:

It is proposed to substitute a general description of value in use (VIU) in both cash-generating and non-cash-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?

We agree with the proposal to substitute a general description of value in use (VIU) in both cash-generating and non-cash-generating contexts, for the broader discussion of VIU and to limit VIU to impairments.

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?

We agree with the use of the cost approach and the market approach as measurement techniques. We also agree and with the proposed deletion of market value (for assets and liabilities) and replacement cost (for assets) as measurement bases from the Conceptual Framework.

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?

We agree with the proposed deletion of net selling price (for assets), cost of release (for liabilities) and assumption price (for liabilities) as measurement bases from the Conceptual Framework.

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?

We have no other issues to highlight.

Appendix B: Responses to Specific Matters for Comment to Exposure Draft 77 *Measurement*

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:

- *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.

We 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.

Specific Matter for Comment 2—(paragraph 17):

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.

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 and that this accounting policy choice is reflected through the selection of the measurement model.

However, we recommend that the proposed standard makes it clear that the selection of the policy choice should reflect, and be consistent with, the objective for which the asset is held for use by the entity. It should also be consistent for all assets in that class of assets.

Specific Matter for Comment 3—Appendix A (paragraphs A1–A6):

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.

We agree the guidance on historical cost is appropriate for application by public sector entities.

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.

We agree that no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement.

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.

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

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.

We disagree with the definition of current operational value. The concept of current operational value, as articulated in the ED 77 (and ED 76), is inconsistent and confusing in some places.

We agree with the Alternative View set out in ED 77 that:

- The lack of clarity in the proposed definition of current operational value risks not achieving the qualitative characteristics of financial reporting; and
- The proposed definition of current operational value could permit either entry or exit values. (paragraph AV2)

Our comments under Specific Matter for Comment 3 of ED 76 set out our views on why we disagree with the definition of current operational value and strongly support a cost-based definition.

(Also see our comments under Specific Matters for Comment 7 and 8 below)

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.

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. This is consistent with ensuring that the measure reflects the asset's current use and location.

However, we found other aspects of the guidance to be complex and inconsistent with the concept of current operational value as a measure of an asset's operational capacity in its current use. For example, we agree with the Alternative View that there is a lack of clarity about the accounting for surplus capacity (paragraph AV2).

Paragraphs B10 to B12, in relation to surplus capacity, state:

> *B10. Surplus capacity exists when an asset is not used to its maximum capacity. For example, an entity owns a building, but only utilizes 80% of the space available. The remaining 20% is left vacant.*
>
> *B11. Since current operational value reflects the value of the asset consumed in providing the service at the prevailing prices, current operational value assumes the asset is used to its full capacity, subject to any tests for impairment in accordance with IPSAS 21 or IPSAS 26.*

B12. For example, the current operational value of land shall reflect the value of the land actually held, in terms both of size and location. If the services could be provided from a site measuring three hectares, but the actual site measures five hectares, the land is measured based on its actual size.

We strongly agree with the Alternative View that the lack of clarity in the ED about accounting for surplus capacity could lead to current operational value being overstated or understated. We do not agree with the proposal that surplus capacity be dealt with at the impairment level. To ensure the replacement of a "like-with-like" asset, surplus capacity needs to be dealt with at the measurement level. We consider that the proposed standard should clarify the issues raised in parargaphs AV16 in the Alternative View, namely:

- How to differentiate 'economic (or external) obsolescence from surplus capacity; and
- How to classify a reduction in an asset's use resulting from a reduction in demand for its services as either a potential source of impairment or a potential reduction in the asset's current operational value.

We also agree with the comment in paragraph AV17 that when an asset includes surplus capacity that is severable from the asset (e.g. surplus land that could be sold or leased separately), the unit of account for measurement should be bifurcated – with the severable part of the asset that is surplus to operating requirements classified and measured as an asset held for its financial capacity.

Additionally, we consider that it is important that the proposed standard clarifies that surplus capacity can exist for different reasons and should be treated differently depending on the reason for the surplus capacity. For example, surplus capacity that, while rarely or never used, is necessary for stand-by or for safety purposes or for future-proofing purposes would not require an adjustment to the current operational value.

Paragraphs B14 and B17, in relation to restricted assets, state:

The current operational value of restricted assets shall be measured as follows:

(a) If an equivalent restricted asset is <u>obtainable in the orderly market</u> at the measurement date for a price supported by observable market evidence, the asset is measured based on the available market evidence for the <u>equivalent restricted asset</u>, without any further reduction for the restrictions; or

(b) If an equivalent restricted asset is <u>not obtainable in an orderly market</u> at the measurement date for a price supported by observable market evidence, the asset is measured <u>at the price of an equivalent unrestricted asset, without a reduction for the restrictions</u>. (Paragraph B14, emphasis added)

Paragraph B17 states:

The current operational value of a restricted asset measured under paragraph B14 by reference to observable market evidence for an equivalent asset <u>is not reduced to reflect the restrictions</u>. In respect of assets measured under paragraph B14(a), the market entry price of an equivalent restricted asset would already reflect any effects that the restrictions have on the current entry price of the service potential embodied in the asset. In respect of assets measured under paragraph B14(b), the <u>restrictions would not reduce the current entry price of the service potential embodied in the asset</u> (the cost that the entity currently would need to incur) if the entity needs to purchase an unrestricted replacement asset to continue delivering services of the same nature and volume. (Paragraph B17, emphasis added)

We note that not taking into account restrictions is inconsistent with IG15 of ED 78 *Property, Plant and Equipment* where it is stated that restrictions on the use of heritage assets do not affect an entity's ability to derive current values for them. However, restrictions will need to be taken into account when deriving a current value.

It is unclear why obsolescence is taken into account in deriving current operational value but not restrictions. In our view, both obsolescence and restrictions impact on an asset's operational capacity in its current use and should be taken into account (that is deducted) in deriving the current operational value of the asset. This is consistent with paragraph 7.50 of ED 76 which states:

> *An asset supports an entity in achieving its service delivery objectives in its current use. 'Current use' is the current way an asset is used. Current use generally reflects the policy objectives of the entity operating the asset.*

The New Zealand standard PBE IPSAS 17 *Property, Plant and Equipment* contains useful Application Guidance on the depreciated replacement cost method for estimating the value of an asset. The Application Guidance in PBE IPSAS 17 may be helpful to the IPSASB in addressing our concerns with the application of current operational value.

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.

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

We do not agree that the income approach is an applicable measurement technique to estimate the value of an asset measured using the current operational value measurement basis. We support the Alternative View.

A key reason for having a current operational value is to measure the value of assets that are held for primarily for operational capacity to provide future services rather than primarily for cash/income generation. The future cash flows generated by the assets using an income approach are unlikely to be an appropriate surrogate or reflection of the value of the asset to the entity in its current use at the measurement date. Because these assets are not held for cash generation, using the income approach risks the assets being measured at an amount that would not represent the service potential that they embody or the cost of replacing their service potential. For many public benefit entities this misstatement is likely to be material. As such the income approach would not provide information that enables users to assess an entity's operational capacity "the capacity of the entity to support the provision of services in future periods through physical and other resources". (ED 76, paragraph 7.3)

Paragraph 32 of ED 77, in relation to characteristics of assets and liabilities, states:

> *A measurement basis is applied to a particular asset or liability. Therefore, when applying the measurement basis, an entity shall take into account <u>the characteristics of the asset</u> or liability at the measurement date … Such characteristics include, for example, the following:*
>
> *(a) The condition and location of the asset; and*
>
> *(b) Restrictions, if any, on the sale or use of the asset.* (Emphasis added)

Paragraph B5 of ED 77, in relation to the value of asset under current operational value, states:

> *Current operational value measures the value of an asset, or group of assets, used in supporting the achievement of an entity's present service delivery objectives. The following key aspects affect the measurement of an asset's current operational value:*
>
> *(a) Location of the asset;*
> *(b) Entity-specific value;*
> *(c) Surplus capacity;*
> *(d) Restrictions; and*

(e) *The least costly manner to achieve its service delivery objectives. (*Paragraph B5)

Paragraph B39, in relation to applying the income approach, states:

Applying the income approach shall take into account the attributes of the asset. This includes:

(a) Estimates of future cash flows;
(b) Possible variations in the estimated amount or timing of future cash flows for the asset being measured, caused by the uncertainty inherent in the cash flows;
(c) The time value of money;
(d) The price for bearing the uncertainty inherent in the cash flows (a risk premium). The price for bearing that uncertainty depends on the extent of that uncertainty; and
(e) Other factors.

The income approach focuses on future cash flows. It does not take into account the key aspects set out in paragraph B5 that goes into determining a current operational value at the measurement date. It is a measure that is independent of the current service potential of the asset and an inappropriate measure of the current service potential of the asset in its current use to the entity.

We agree with the Alternative View that replacement cost would be an appropriate technique to use rather than the income approach, as it would more appropriately reflect the service potential embodied in assets and the current cost of providing services using those assets.

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.

We agree the guidance on fair value (that has been aligned with IFRS 13, *Fair Value Measurement* (Appendix C: Fair Value)) is generally appropriate for application by public sector entities.

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 fulfilment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfilment). 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 agree the guidance on cost of fulfilment (that has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfilment)) is appropriate for application by public sector entities.

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.

We agree that measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77. It is more useful for disclosure requirements specific to the particular subject matter to be included in the IPSAS to which the asset or liability pertains to avoid having to refer to different standards for the relevant disclosure requirements.

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.

We have not identified any measurement disclosure requirements that apply across IPSAS that should be included in the proposed standard on *Measurement*.

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 agree that, where relevant, current value model disclosure requirements should be applied consistently across IPSAS, that is, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value. This will allow for more consistent disclosure of information when the current value model is used in different standards.

Specific Matter for Comment 14:

Do you agree with the proposed 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 agree that the proposed 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.

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.

We agree the fair value disclosure requirements should include requirements to disclose the significant inputs to the fair value hierarchy.

Appendix C: Responses to Specific Matters for Comment to Exposure Draft 78 *Property, Plant, and Equipment*

Specific Matter for Comment 1:

[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?

We agree with the proposed restructuring of IPSAS 17 within ED 78.

Specific Matter for Comment 2—(paragraphs 29-30):

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.

We do not 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.

Consistent with paragraph 29 and the guidance in paragraphs AG25-AG30, whether a class of property, plant and equipment is measured at current operational value or fair value should depend on the objective the assets are primarily being held – whether for maintaining operational capacity or for financial capacity. The measurement bases should not be interchangeable without reference to the primary objective of holding the assets.

Therefore, we recommend that the second sentence of paragraph 29 be strengthened to read:

> The primary objective for which an entity holds an asset ~~guides~~ <u>determines</u> the selection of the current value measurement basis. [Suggested amendment as marked]

We also recommend that paragraph 30 be amended to clarify that a change in the current value measurement basis, for example, from current operational value to fair value, or vice versa, is appropriate only if there is a change to the primary objective for holding the asset, for example from operational capacity to financial capacity:

> *The measurement basis selected to measure current value, either fair value or current operational value, shall be applied consistently to the class of property, plant, and equipment at each measurement date. A change in the current value measurement basis, for example, from current operational value to fair value, or vice versa, is appropriate <u>only if there is a change to the primary objective for holding the asset, for example, from operational capacity to financial capacity and</u> if the change results in a measurement that is more representative of the current value of the item of property, plant, and equipment.* [Suggested additional text underlined]

In relation to assets held for financial capacity, paragraph AG26 states:

> *Assets held with the primary objective of generating a financial return are held for their financial capacity. Holding an asset to generate a financial return indicates that an entity intends to generate positive cash inflows from the asset. Under a current value model, assets held for their financial capacity are generally measured at fair value.*

We note that IPSAS 26 *Impairment of cash-generating assets* discusses a cash-generating unit and cash-generating assets in terms of the unit/assets being held to generate a commercial return that generates cash inflows (paragraphs 13 and 14 of IPSAS 26).

We recommend that, to align with IPSAS 26, paragraph AG26 be amended to include the concept of generating a commercial return on the assets (see suggested underlined text):

> *Assets held with the primary objective of generating a financial return are held for their financial capacity. Holding an asset to generate a financial return indicates that an entity intends to generate a commercial return from the positive cash inflows from the asset. Under a current value model, assets held for their financial capacity are generally measured at fair value*. [Suggested additional text underlined]

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.

We do not have additional characteristics of heritage assets (other than those noted in paragraph AG3) that we consider present complexities when applying the principles of ED 78 in practice.

However, the absence of market prices and/or the difficulty in obtaining reliable current values may affect how heritage assets are measured. We question whether current operational value is a useable or relevant measurement base for certain irreplaceable heritage assets like treaties. For example, in New Zealand, the Treaty of Waitangi has been valued based on fair value. With the proposal to limit fair value as an exit value, we are unclear how such treaties will be measured.

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.

We do not have additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that we consider present complexities when applying the principles of ED 78 in practice.

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.

In principle, the disclosures set out in paragraph 80 are equally useful and should also apply to any 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. The disclosures should not be limited just to heritage property, plant, and equipment.

Specific Matter for Comment 6—(paragraphs IG1-IG40):

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.

We agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets.

Specific Matter for Comment 7—(paragraphs IG1-IG40):

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.

We agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets.

Other comments

Revaluation surpluses/deficits on derecognition of an asset

Paragraph 42 of ED 78 states:

> *Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.* [emphasis added]

We consider that when an asset is derecognised, all of the revaluation surplus included in net assets/equity in respect of the asset must be transferred directly to accumulated surpluses or deficits (i) as the assets are used by the entity or (ii) when the assets are derecognized. We recommend an amendment to clarify this.

Deemed cost

Paragraph 12 of ED 78 requires that an item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, unless it is acquired through a non-exchange transaction. Property, plant, and equipment acquired through a non-exchange transaction is required to be measured at its "deemed cost".

For clarity, we recommend that the proposed standard includes a definition for "deemed cost".

Appendix D: Responses to Specific Matters for Comment to Exposure Draft 79 *Non-current Assets Held for Sale and Discontinued Operations*

Specific Matter for Comment

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.

Do you agree with this disclosure proposal? If not, why not?

In general, we agree that there is no public sector specific reason to depart from the measurement requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

However, we recommend that the scope of the proposed standard be clarified to take into account specific public sector practices.

In the public sector, assets are often transferred from one public entity to another public entity to be used for the same or similar objective. Such transfers can take place at full consideration, nominal consideration, below market consideration or no consideration. As an example, where the assets transferred are measured at a current operational value that is above market value, we do not consider that accounting under the proposed standard is always appropriate. This would result in:

- an immediate loss for the transferor on classification of the asset as held for sale (resulting from measuring the assets at fair value less costs to sell); and
- an immediate write up in value of the asset for the transferee (resulting from measuring the assets back to current operational value).

Other public sector specific examples include assets (for example, land and building) that are held for treaty settlements. It is unclear if these are considered to be non-current assets held for sale and therefore within the scope of the proposed standard.