Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
www.ey.com

Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2, Canada

30 April 2013

Dear Ms. Fox

Exposure Draft: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

The global organization of Ernst & Young is pleased to respond to the request of the IPSASB (or the Board) to comment on the above Exposure Draft (ED or proposal).

General comments

We support and commend the Board for undertaking this difficult project in which very limited guidance has been developed in other conceptual frameworks. As reiterated in our other comment letter on the IPSASB's ED *Elements and Recognition in Financial Statements*, we would strongly encourage the Board to be closely connected to the development of the International Accounting Standards Board's (IASB) conceptual framework and consider the relevance and appropriateness of the decisions taken by the IASB for the IPSASB's conceptual framework. While we acknowledge that there will be some public-sector specific standards and requirements for public-sector transactions, the concepts underpinning the elements, recognition and measurement should be coherent and consistent between both frameworks.

We support the direction that the Board has taken to identify and describe the different measurement bases, and to classify them as either an entry price or an exit price, and either entity or non-entity specific. These categorizations will indeed be helpful for selection of a measurement base in a standard and application of the measurement base in practice, as there will be greater clarity on what a particular measurement base is intended to measure. The discussion on various measurement bases in relation to the objectives and qualitative characteristics would also be helpful to the IPSASB when selecting particular measurement base(s) in a standards-level project.

However, we believe that the Board should provide an overall measurement objective that is linked to the objectives and qualitative characteristics (QC) of financial reporting; which in turn would provide readers a clear linkage between measurement and the objectives and QCs of financial reporting. We don't believe that by setting a measurement objective, it would overly restrict the IPSASB (as mentioned in Basis for Conclusions (BC) 4). On the contrary, it would help the Board select a measurement base in a standards-level project that is consistent with the objectives and QCs of financial reporting. Hence we are supportive of the inclusive of a measurement objective as articulated in Alternative View (AV) paragraphs 6 and 7.

We would also like to emphasize that the conceptual framework should focus its discussion on broad principles of fundamental concepts. The prescription of specific requirements would be more appropriately dealt with at the standards level. Hence we recommend that the Board remove the discussion of possible disclosures for items carried at historical cost in paragraphs 2.6 and 2.7.

Please find our responses to the specific matters for comments set out in the appendix to this cover letter. Should you wish to discuss the contents of this letter with us, please contact Thomas Müller Marqueś-Berger at (+49) 711 9881 15844 or Serene Seah-Tan at (+44) 20 7980 0625.

Yours faithfully

Ernst & Young

Appendix – Responses to the specific matters for comments

Specific Matter for Comment 1 Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

As mentioned previously in our cover letter, we support the inclusion of a measurement objective as articulated in AV 7:

> "To select those measurement attributes that *most fairly reflect* the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes." [emphasis added]

Further, in order to 'select those measurement attributes that *most fairly reflect* the operational capacity…' the relevance and decision-usefulness of the information provided needs to be balanced with the cost of a particular measurement being justifiable to the benefits to users. Also, methods of measurement used by entities need to be consistent from period to period (unless required by changes in standards or changes in economic conditions e.g. disappearance of an active market), in order to ensure information provided to users is understandable.

Specific Matter for Comment 2 Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

Firstly, we do not believe that it is necessary to classify measurement bases as to whether they are 'observable' or 'non-observable' in a market. Whether or not a measurement base is observable, it deals with the *type of evidence* available to support that measurement, rather than what the measurement base is intended to represent.

Further, we do not believe it is necessary to distinguish between the two types of market values (active and inactive markets) as set out in the table in paragraph 3.2. To illustrate this point, take for example, when estimating market value in an inactive market, the measurement objective is still the same as when market value is observable in an active market, which is the determination of the market-participants' (non-entity-specific) view of the current exit price.

Following from the above point, we do not believe that the 'fair value model' discussed in paragraphs 4.5-4.8 represents a measurement model, as distinct from a measurement base. There is a marked contrast of the discussion of the deprival value model – which is a model for choosing between several measurement bases – and the 'fair value model', which is really a continuation of the discussion of the 'market value' discussed in paragraphs 3.3 – 3.8. Therefore we suggest that the discussion in paragraphs 4.5 – 4.8 be moved to Section 3 as part of paragraphs 3.3 – 3.8.

We also note that the definition of market value in paragraph 3.3 is the old definition of fair value, i.e. the definition currently used in IPSAS and in IASB standards before the adoption of IFRS 13 *Fair Value Measurement*. The old definition has always been ambiguous as to whether it is an entry or exit price (for example, it talks about an exchange of an asset instead of the sale of an asset); whereas the IASB's new definition in IFRS 13 is clearly an exit price. Given that the proposals in this ED effectively treats market value as an exit price, it would be better to adopt the new IFRS 13 definition in the IPSASB's conceptual framework.

Specific Matter for Comment 3

Do you agree with the approaches proposed in Section 4 for application of:

a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and

b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not, please give your reasons.

In addition to the fact that as mentioned in SMC 3, we do not believe fair value model to represent a measurement model, we also seek further clarifications on the following in section 4:

Firstly, paragraph 4.4 could be confusing to readers. The first scenario as described in this paragraph - the fair value model is used to estimate a market value where an active market *does not* exist. Paragraph 4.5 goes on to describe the objective of fair value model is to estimate the price to sell an asset in an *active, open and orderly market*. Without further explanation, paragraph 4.7 then says that unobservable inputs may be relied on in a fair value model when observable market evidence is unavailable. Presumably (from the reading of paragraph 3.1), the intention was to convey that a fair value model could be used in situations where market inputs are not available in the absence of an active market, and unobservable inputs can be used as proxies. It would be helpful for the Board to be more explicit and reiterate this point within this discussion.

Secondly, the term 'operational assets' used in the description of the deprival model (and elsewhere in the ED) is not defined in the ED, hence it would be ambiguous as to what would be deemed 'operational' versus 'non-operational'. For example, operational assets usually refer to property, plant & equipment (PP&E) used in the production of goods and services. Hence, is the Board referring to only PP&E in this context? It would be helpful for the Board to provide greater clarity on what type of assets would be deemed as operational assets.

Specific Matter for Comment 5

a) Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

The discussion of market value in the context of liabilities in paragraph 5.6 is confusing and inconsistent with other parts of the ED. It appears to be talking about market value of a liability as being its transfer price. This is consistent with the IASB's new definition of fair value (in IFRS 13, which refers to the price at which a liability could be transferred), but is inconsistent with the definition of market value that the IPSASB is using in paragraph 3.3. The definition in paragraph 3.3 refers to 'settling' a liability, not transferring it. Therefore, as mentioned previously, we recommend changing paragraph 3.3.

In this section, it then continues to discuss two different types of settlement – 'immediate settlement' (in the discussion of cost of release in paragraphs 5.7-5.11) and 'settlement over time in accordance with the obligations' (in the discussion of cost of fulfilment in paragraphs 5.18-5.25). These are different measurement bases to market value, so it seems that the Board is considering that the 'market value' of a liability is its current transfer price, i.e. a market participant view of its current exit price. This reinforces our earlier point that by updating paragraph 3.3's definition of market value to the new IFRS 13 definition, the inconsistency between paragraphs 3.3 and 5.6 would be resolved.