

## Comments on CF–ED3

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### **Specific Matter for Comment 1**

In order to be consistent in a Conceptual Framework (CF) the selection of a measurement basis should be connected to the objectives of financial reporting.

In the private sector regarding for-profit corporations investor-creditor information needs are decisive. That is why fair value measurement is important, in other words the various prices of debt-equity instruments, their purchase prices and their future selling prices, included dividends, in the stock market. Based on this kind of information investors and owners can make their choices.

This is not the case in the public sector where the objective of general purpose financial reporting is to serve the information needs of principals of the public sector, that is the information needs of voters/ tax-payers and legislative bodies who represent citizens. The most essential information needs concern the budget accomplishment and the value for money created by the accountable administrative entities and service providers. Other important information needs of the accountable public sector entities concern the balance of revenues earned and expenses incurred and the result in the income sheet, the annual deficit/surplus that accrues to the balance sheet.

The most important measurement basis for these objectives are historical costs and entry values, and on the other hand also non-financial information of service outputs that are put into relation to financial cost figures. Fair value measurement containing speculative market valuations and revaluations of assets are not important in the public tax-financed sector where main part of assets are not meant to be sold in the market. Fair value measurement may, on the contrary, lower the quality of general purpose financial statements (GPFS), because of including non-realized items, for instance holding gains and losses, into the information of the income sheet. Fair value measurement may also make general purpose financial statements more difficult to audit in a reliable manner.

One objective that is not clearly stated in the Exposure Draft is that realized transactions (both exchange and non-exchange) and expenses and revenues must be matched for the accounting period. This tells the balance between expenses and revenues and the financial result of the accounting period. An income sheet approach would serve better than the balance sheet approach chosen in the Exposure Draft 3 public sector information needs.

### **Specific Matter for Comment 2**

Historical costs and nominal values are for many classes of assets and liabilities the most reliable and auditable measurement basis for accounting figures fulfilling public sector information needs. Current value measurement bases are relevant bases for financial instruments held for short term purposes. In general, always when current values are important, additional information of current values can be given in the notes of GPFSs.

### **Specific Matters for Comment 3**

I do not agree that the fair value measurement model would be a suitable comprehensive model for public sector GPFs, it may be a suitable model for GPFs in the private sector markets but not in the public sector tax-financed sector.

Included to the depriv value model replacement costs are a relevant measurement basis for operational assets, for instance, for informing tax-payers and public sector decision making bodies of costs of maintaining the infrastructure assets and carrying them over in good shape to coming generations. The best places for this kind of information are the notes to GPFs and the annual activity reports.