

Finance

Comptroller's Division

Provincial Comptroller  
715 – 401 York Avenue  
Winnipeg, Manitoba R3C 0P8  
Phone: (204) 945-4919  
Fax: (204) 948-3539  
E-mail: [betty-anne.pratt@gov.mb.ca](mailto:betty-anne.pratt@gov.mb.ca)

April 30, 2013

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario  
M5V 3H2

Dear Sir/Madam:

**Re: Conceptual Framework Exposure Draft 3 – Measurement of Assets and Liabilities in Financial Statements**

Thank you for the opportunity to comment on the IPSASB Conceptual Framework.

The Province of Manitoba does not support *Exposure Draft 3 – Measurement of Assets and Liabilities in Financial Statements*.

The Exposure Draft (ED) as currently written lacks specific criteria for determining the appropriate measurement basis to apply for a specific situation. The Province feels that it is likely that future IPSAS will recommend or permit the fair value measurement of assets and liabilities far beyond what is currently permitted under Canadian public sector accounting standards. In *ED 2 – Elements and Recognition in Financial Statements* the elements of revenue and expenses includes unrealized gains and losses. The unrealized gains and losses would factor into the determination of the net results from operations for the accounting period.

The Province strongly supports the use of the historical cost model for determining the operating capacity of a public sector entity and cost of providing services. Historical cost is verifiable, free from bias, and understood by the users of the financial statements. Currently some IPSAS allow public sector entities to choose either historical cost or fair market value. The ED would allow preparers to select from a number of acceptable measurement bases making comparison between public entities even more difficult. For many of the measurement bases recommended in the ED it would be difficult to obtain the information. The availability of historical cost information would allow for the timely preparation of financial statements. For other measurement bases the cost of obtaining the information would exceed the benefits of obtaining the information.

The Province agrees that using market values for some types of assets and liabilities is appropriate provided that there is an open, active and orderly market. Market values are relevant in determining the financial capacity of a public sector entity for assets and liabilities where there is observable and objective market data. However the unrealized gains and losses on these assets should not be included in the determination of the net revenues and expenses but in a separate statement.

The introduction to IPSASB's conceptual framework was finalized in January 2013. IPSASB has identified the objectives of financial reporting by public sector entities to be providing information that is useful to the users of GPFRs for accountability and decision making purposes. As part of accountability, governments and other public sector entities prepare, approve and make publicly available an annual budget. Financial statements provide information to users in assessing the extent to which the financial results has met its budget objectives.

If the 2 EDs are approved as currently written it will become increasingly difficult for users to understand and compare the reported results in the financial statements against voted budgets which are prepared on a different basis from the financial statements. Summary budgets for most senior Canadian governments are aligned with the basis upon which financial reports are prepared. The Province is concerned with the potential erosion to transparency and accountability in public sector reporting when information is not presented in a clear and understandable way to the general public and their elected representatives.

The difficulty to budget for future unrealized gains and losses makes the IPSASB's proposed model for financial statements to be challenging at best, and likely to create further misalignment between fiscal accountability and financial reporting frameworks.

We would like to again thank IPSASB for the opportunity to comment on this CP.

Yours truly,

"original signed by"

Betty-Anne Pratt, CA  
Provincial Comptroller  
Province of Manitoba

## **Specific Matters for Comment**

**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.**

Yes the Province agrees 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. In IPSASB's introduction to financial reporting the objectives are to provide information that is useful to the users of financial statements for accountability and decision making purposes.

The measurement objective should be the same as the objective for financial reporting. The measurement objective should be to provide information that is useful to the users of financial statements for accountability and decision making purposes.

**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?**

The Province agrees that market value is an appropriate measurement basis for some assets and liabilities provided there is an open, active and orderly market that is verifiable.

**Specific Matters 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**

The Province agrees with the use of the fair value model for some assets. However we do not view the fair value model to be appropriate for measuring non-financial assets and determining the cost of production. The historical cost model is the most appropriate model for measuring operating capacity and the cost of providing services.

- (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.**

The deprival model is far too complicated and complex. The model involves three measurement bases. The cost of using the model would far outweigh the benefits for financial reporting and would delay the preparation of financial statements.

**Specific Matter for Comment 4 - 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 Province agrees that the proposed measurement bases for liabilities are appropriate but historical cost is the most appropriate basis for measuring most liabilities. Long term liabilities should be discounted.

Market value would be appropriate for some liabilities provided there is observable data in an open, active and orderly market that is verifiable.