



Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Toronto, Ontario M5V 3H2
CANADA

15 May 2013

Dear Stephenie

Re: ED 3 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements.*

1. The Committee on Accounting for Public Benefit Entities (CAPE) welcomes the opportunity to comment on the above exposure draft. CAPE is an advisory committee to the FRC's Accounting Council, which advises the FRC Board as the UK standard-setter. It should be noted that as the IASB's Conceptual Framework develops so too may the Council and Board's thinking.
2. We reiterate our comments from previous responses to the conceptual framework that we believe that it is important that the differences between the IASB and IPSASB be minimized where possible.
3. Our responses to the Specific Matters for Comment are set out in the attached Appendix. If you require any further information please contact Joanna Spencer (j.spencer@frc.org.uk) or telephone +44 (0) 20 7492 2428.

Yours sincerely

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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 - we agree that the selection of measurement bases should be based on the extent that they meet the objectives of financial reporting.

That said we believe that it is useful to have a measurement objective to determine whether the measurement base selected will achieve that objective. We know that the objective of financial reporting is to provide information for accountability and decision-making purposes. Without a measurement objective, we are unsure how it is possible to determine whether the 'measured' information will meet these objectives.

One proposed measurement objective is 'Assets and liabilities should be stated at the amount of their current value (burden) to the entity'. This contains two substantive points: it makes clear that current values are to be preferred, which accords with their greater relevance this would not preclude the use of historical cost within standards where it is a reasonable proxy for current measures, or where historical costs may add significance for decision-making purposes (for example, in providing a cost basis against which gains can be measured) or for accountability purposes; and it makes clear that the value must be relevant to the circumstances of the entity, rather than the value that an asset might have to another.

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?

We are of the view that 'current market value' is an overarching concept. We consider that replacement cost, net selling price and value in use all rely on a concept of market value. However we do not suggest that market value be removed from the discussion of current value measurement bases but that it should be presented as a desirable attribute of whichever other basis is being adopted and not as a measurement basis in its own right.

We do not consider that any other current value measurement bases for assets should be included in the 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.

Yes – we consider that the ED’s discussion of fair value and deprival value is balanced and we have no other comments to make.

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?

Whilst we agree with the proposed measurement bases for liabilities, we reiterate our comment made in SMC 2 that we consider market value to be an overarching concept that is implicit in other current value measurement bases.

Other Comments

As stated in our response to SMC 1 we consider that it is necessary for there to be a measurement objective that will result in information being presented in a manner which will ensure it meets the objectives of financial reporting – accountability and decision-making.

We are unsure about the emphasis on historical cost in Section 2 and indeed how information presented on an historical cost basis will meet the objective of decision-making. We understand the view that it may have a role in meeting the accountability objective but note that it may also be argued that current values are also relevant for this purpose. We would suggest that, in order to meet the decision-making objective information should usually be presented on a current value basis, unless it is clear either that price changes are insignificant or that no reasonably reliable current value is

available. To our mind the ED places too much emphasis on historical cost: it should not be presented as a 'preferred' measurement model

We have some sympathy with Ken Warren's alternative view and agree that a measurement objective is necessary to connect the overall objectives of financial reporting and the qualitative characteristics to decide on which measurement basis or model to choose.