

9 May 2013

Ms Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
TORONTO ONTARIO CANADA M5V 3H2

Email: [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)

Dear Stephenie

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

Thank you for the opportunity to comment on the above. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the proposals and our comments follow. CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

Our preferred approach is for an international reporting framework comprised of a single set of concepts designed for application to all sectors. The Memorandum of Understanding between the International Accounting Standards Board and the International Federation of Accountants notes the importance of involving the International Accounting Standards Board (IASB) technical staff in the IPSASB's development of a conceptual framework for public sector entities (Framework). We are pleased that this is taking place and we hope that it will continue with an increasing focus now that the IASB are progressing with their conceptual framework project. We commend the IPSASB on publishing the first four chapters of Framework. We also agree with the decision of the IPSASB to defer approval and publication of the Preface to the Framework until the Framework is being finalised. This will allow the linkages with the concepts in the Framework to be made more explicit. Furthermore, we believe the Framework would benefit from an IPSASB review of all the published chapters as part of the finalisation process. As well as enabling the linkage of concepts to be made more explicit a review of this type enables the Framework to be subjected to a contemporary holistic evaluation before its finalisation.

We agree with the alternative view of Mr Ken Warren in the Basis to Conclusions to this Exposure Draft (ED). We believe the role of the Framework should be both aspirational and practical. First, the Framework should be aspirational. Therefore, we consider that the Framework should include a measurement objective and articulate the ideal capital maintenance concept and measurement base for use in the public sector. A Framework that does not articulate a measurement objective and then connect that objective to the objectives of financial reporting will limit the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time.

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



Institute of  
Chartered Accountants  
Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)

Second, while we agree that it is not possible to prescribe a single measurement basis, the Framework does need to be practical. On reading the ED we did not find support for the claim made in paragraph 1.7 that the ED “identifies the factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances.” We do not think the ED achieves this goal and this will need to be properly addressed in the Framework. As pointed out by Mr Warren, in the absence of a measurement objective, there is a risk that different and/or inappropriate measurement bases could be used to measure similar classes of assets and liabilities.

The Appendix to this letter contains our response to the questions for comment. If you require further information on any of our views, please contact Mark Shying, CPA Australia by email [mark.shying@cpaaustralia.com](mailto:mark.shying@cpaaustralia.com) or Kerry Hicks, the Institute by email [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a large loop at the top and a horizontal line at the bottom.

**Alex Malley**  
Chief Executive  
CPA Australia Ltd

A handwritten signature in black ink, appearing to read 'Lee White', with a large loop at the top and a horizontal line at the bottom.

**Lee White**  
Chief Executive Officer  
Institute of Chartered Accountants  
Australia

### 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, however the Framework needs to clearly articulate a measurement objective and the ideal capital maintenance concept and measurement base for use in the public sector. The measurement objective proposed by Mr Ken Warren at paragraph AV7 to the Basis for Conclusions of the ED to select measurement attributes that most fairly reflect the financial capacity, operational capacity and cost of services resonates with us and we encourage the IPSASB to explore further this line of thought.

We agree with Mr Warren that a Framework that does not articulate a measurement objective and does not then connect that objective to the objectives of financial reporting will have undesirable consequences for the ability of the IPSASB to make consistent decisions about measurement across financial reporting standards and over time.

### 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?**

No, as Section 3 of the ED excludes from its discussion fair value and deprival value which we believe are current value measurement bases. Further, paragraph 3.1 states the fair value measurement model is a mechanism for estimating market value when active markets do not exist. We do not agree with this statement, nor do we find the reasons for excluding the two models from the discussion of current value measurement bases convincing. We note that their inclusion in this discussion may have implications for the descriptions of those measurement bases that currently form Table 1. Further, we provide some discussion about replacement cost in our response to Specific Matters for Comment 3 below.

### 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**
- (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.**

We do not agree with the approach taken that excludes these two measurement models from the discussion of current value measurement bases.

In respect of the fair value measurement model, paragraph 4.7 states that fair value is an exit price; relies on observable evidence; and in the absence of observable evidence relies on unobservable inputs. We agree with those statements. However, we believe the statements about fair value would be improved with the inclusion of some further discussion of unobservable inputs. We would expect that because of the nature of public sector assets that when applying the fair value measurement model public sector entities would often use unobservable inputs. Unobservable inputs may use the entity's own data when that it is the best information that is available, that is an entry price. Unobservable inputs shall reflect the assumptions that market participants would use when pricing the item. That said, there may be many occasions when there is no information available about the assumptions that would be held by market participants. Consequently, an entry price will be used to measure the fair value of the asset notwithstanding fair value is an exit price.

In respect of the deprival value model, we note that when this method was adopted by the Australian public sector in the 1980s (and used in Australia until our adoption of IFRS 2005), deprival value was described differently. It was described as the cost to an entity if it were deprived of an asset and was required to continue to provide goods and services or deliver programs using that asset. We understand that the difference between the approach to deprival value as used in the Australian public sector and the approach to deprival value articulated in the ED concerns the concept of replacement cost. Under the ED approach, replacement cost excludes any service potential in excess of that used to deliver services that would be lost to the entity if it were deprived of it. Under the Australian approach to deprival value as describe above, the replacement cost would always be based on the highest and best use of the asset and that could be different from its current use. In contrast, we understand that the ED would require replacement cost to be based on current use. The reasons for the ED disregarding highest and best use are not clear to us.

#### **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?**

Our comments to Specific Matter for Comment 2 also apply here – we believe that fair value and deprival value should be part of the discussion.