

THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND



Response from
The Institute of Chartered Accountants of Scotland to the
International Public Sector Accounting Standards Board

**CONCEPTUAL FRAMEWORK: MEASUREMENT OF
ASSETS AND LIABILITIES IN
FINANCIAL STATEMENTS**

15 June 2011

INTRODUCTION AND KEY POINTS

Introduction

The Public Sector Committee of The Institute of Chartered Accountants of Scotland (ICAS) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) consultation paper "Conceptual Framework for general purpose financial reporting by public sector entities: measurement of assets and liabilities in financial statements". The Public Sector Committee is a broad based committee of ICAS members with representation from across the public services.

The Institute's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key points

While we understand that the IPSASB conceptual framework project is not a convergence project, we would support a Conceptual Framework for public sector entities which only departs from the IASB's Conceptual Framework in areas where there is a clearly justified public sector specific reason for doing so. The timing of the IPSASB project means that key decisions about the Conceptual Framework may be made in advance of commentators' deliberations and IASB decisions regarding its developing Conceptual Framework and as such there may be a risk that the IPSASB Conceptual Framework does not fully reflect these wider deliberations. We would therefore prefer publication of an exposure draft by the IPSASB on the measurement of assets and liabilities in financial statements to include consideration of any material published by the IASB in relation to Phase C of its conceptual framework project on measurement. However, we understand that the IASB has indicated that no further action will be taken on the measurement aspects of its project until at least December 2011.

Our comments on the specific matters for comment are set out in the following section of our submission.

COMMENTS ON THE CONSULTATION PAPER

Specific matter for comment 1

Should the role of the Conceptual Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

Response

We agree that the Conceptual Framework should identify factors which are relevant in selecting a measurement basis rather than restricting public sector bodies to using a single measurement basis or combination of measurement bases.

Specific matter for comment 2

If in your view the Conceptual Framework should specify a measurement base or combination of measurement bases (or approach in the case of deprival value), which should that be?

Response

As we do not believe that the conceptual framework should specify a measurement base or combination of measurement bases (or approach), we have no further comments to add.

Specific matter for comment 3

In your view is the discussion (on measurement bases and approaches) complete, balanced and fair? If not, please indicate what in your view is missing or in what respects do you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

Response

In our view the discussion on measurement bases and approaches is balanced and fair. However, we believe that discussions are not complete without reference to the wider debate on measurement which is yet to be conducted by the IASB as part of its conceptual framework project. We would therefore prefer publication of an exposure draft by the IPSASB on the measurement of assets and liabilities in financial statements to at least include consideration of the IASB's planned exposure draft in relation to Phase C of its conceptual framework project on measurement. However, we understand that the IASB has indicated that no further action will be taken on the measurement aspects of its project until at least December 2011.

Specific matter for comment 4

In your view, should:

- (a) the effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and*
- (b) the effect of changes in own credit risk be reflected where liabilities are subsequently measured.*

Response

We believe that taking own credit risk into account in measuring the fair value of a liability produces information that is illogical and does not meet the objective of relevance to decision making by users of the accounts. For example, an entity with a declining credit rating would conversely show increasing profitability in its financial statements if its credit risk was taken into account in valuing its liabilities. Including own credit risk in the measurement of a liability results in information that bears little relation to the economic reality of the situation it is attempting to describe, therefore should not be considered as part of a fair value measurement.

Specific matter for comment 5

In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

- (a) only the service potential relating to the existing use; or*
- (b) include the incremental value relating to its possible sale for alternative use*

Response

We have not formed a definitive view on this matter. However, at this stage we believe that service potential relating to existing use is probably the most suitable approach to measurement where the assets are being used, for example, as schools or hospitals. Even when there is no specific restriction on the use of such assets, it may be difficult to value these reliably on the basis of alternative use. There may be a stronger case of using alternative use where assets are being used as offices, for example, in the business district of a city.