

Submission by the Association of Chartered Certified Accountants

14 October 2019

To: Ian Carruthers
Chair, IPSAS Board
227 Wellington Street West
Toronto ON, Canada
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Submission via website

Dear Ian

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 219,000 members and over 527,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 110 offices and centres and 7,571 Approved Employers worldwide, who provide high standards of employee learning and development.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA has introduced major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas. Further information about ACCA's comments on the matters discussed here can be requested from:

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ACCA welcomes the opportunity to comment on the consultation paper issued by IPSAS Board on *Measurement*. The ACCA Public Sector Global Forum, staff experts and broader ACCA stakeholders have considered the matters raised and their views are represented in the following.

It is worth noting that ACCA contributed to the Accountancy Europe (AE) [response](#) on this consultation. The purpose of this response is to highlight clarifications and additional comments from ACCA in regards to the *Measurement* consultation.

Comment outside of Preliminary Views and Specific Matters for Comment

ACCA wishes to strengthen the point made in the AE response regarding the purpose of the Conceptual Framework (CF), relative to standards and application guidance. The CF should provide the underpinning concepts supporting the standards and application guidance and not act as the source of the principles-based rule itself. The IPSAS Board should avoid inconsistency between the CF and the IPSASs. It is worth noting that the illustrative Exposure Draft (ED) does not indicate amendments required to other standards or in fact the CF itself, though this will be critical to maintaining a coherent set of IPSASs that align with the CF.

AREAS FOR SPECIFIC COMMENT:

Preliminary view 1 – Chapter 2

The IPSASB's Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why?

Response

We agree that fair value, fulfilment value, historical cost and replacement cost require application guidance. It is our view that any measurement basis that is currently in use across the IPSASs should be included in the ED. In particular, this would mean the inclusion of 'net realizable value' – though this should be described as 'Fair value less cost to sell' in order to align with IFRS (based on the CP's suitable principle of aligning IPSAS and IFRS terminology, where possible).

In addition to the measurement bases listed in the AE response, we note that 'value in use' needs to be retained due to its connection to impairment.

Preliminary view 2 – Chapter 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

Response

We agree with the Preliminary View.

Preliminary view 4 – Chapter 2

The IPSASB's Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response

Fair value guidance should be aligned as far as possible with IFRS 13. One exception would be 'highest and best use', which should be adapted to the public sector context.

Preliminary view 7

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

Response

We do not agree with the Preliminary View and instead advocate for retaining the option to capitalise certain borrowing costs, where this choice for preparers would be informed by detailed application guidance.

ACCA agrees with the opinion of AE regarding recognition of instances where capitalisation of borrowing costs is appropriate, but clarifies that there may be instances where expensing borrowing costs is more appropriate, for example to meet the needs of General Purpose Financial Statement (GFS) users. At the same time, we also recognise the argument in paragraph 3.23, setting out that some users want to see a 'clean' interest cost.

Given the competing opinions to this Preliminary View, as well as the importance of borrowing costs in the public sector context, ACCA recommends that the IPSAS Board considers this matter in more detail.

Preliminary view 8

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Response

We agree with the IPSAS Board's Preliminary View on the definition of transaction costs.

Preliminary view 10

The IPSASB's Preliminary View is that transaction costs incurred when entering a transaction should be:

- Excluded in the valuation of liabilities measured at fulfilment value;*
- Excluded from the valuation of assets and liabilities measured at fair value; and*
- Included in the valuation of assets measured at historical cost and replacement cost. Do you agree with the IPSASB's Preliminary View?*

If not, please provide your reasons and state how you would treat transaction costs in the valuation of assets and liabilities, giving your rationale for your proposed treatment.

Response

ACCA believes there may be instances when transaction costs should be included within the fair value measurement basis and is a market driven value. In reality transaction costs maybe sizeable and hence wholly relevant to user decision making.

Specific matter for comment 3

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost– Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Response

ACCA would like to clarify that the decision boxes represent choice in situations such as replacing an asset or preparation for disposal.

The reference to Appendix C in the green historical cost box needs to be amended; Appendix C refers to assets, whereas the flowchart relates to liabilities.