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Re: Response to Consultation Paper *Measurement*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Consultation Paper *Measurement* published in April 2019 (the CP).

The CNoCP thanks the IPSAS Board for pulling together guidance on various Measurement bases, especially as it is inclusive of historical cost as well as fair value. We trust that a future standard built on this foundation would be a relevant and most useful addition to the suite of IPSASs. It bridges the gap between the Conceptual Framework that elaborates on measurement objectives on the one hand, and individual standards that provide requirements as to what measurement basis should be retained on the other hand. In addition, the future standard on Measurement will include definitions of measurement bases that are pervasive across standards, which will increase internal consistency. We also take that opportunity to emphasise the importance of historical cost measurement basis to reflect faithfully most operations specific to the public sector.

As far as the process is concerned, we believe that presenting for public consultation a CP together with an illustrative exposure draft (ED) truly helps constituents. We fully agree with the objective that the project is not intended to bring modifications to the use of measurement bases in individual standards. However, because the ED is only illustrative, we do not propose detailed comments to

a full extent. For instance, at this stage of the project, we did not assess to what extent relocating guidance from individual standards to the future standard on Measurement would bring about unintended consequences on measurement requirements in individual standards.

On a more detailed level, we agree with the accounting treatment proposed for borrowing costs and globally with that retained for transaction costs. We believe they ensure pragmatic application and are consistent with most current practices in our jurisdiction.

However, we would like to bring to your attention the following concerns that were raised during the course of our analysis of the proposals. Firstly, we think that the selection of measurement bases could be more comprehensive and the rationale for retaining those bases more robust. For instance, value in use seems an appropriate candidate for application guidance in the future standard as it is currently used as a reference in several individual standards. Conversely, other measurement bases such as cost of fulfilment are only mentioned in the Conceptual Framework.

We would also advise that the difference between market value and fair value should be investigated as part of the project on Measurement, with only consequences dealt with within the future project on the limited review of the Conceptual Framework.

Finally, we are of the view that the decision trees in diagrams 4.1 and 4.2 are very useful: they enlighten the reader as to how to understand the references to cost of services, operational capacity and financial capacity. Still, at this stage, those diagrams would benefit from further work, for instance on the relationship between replacement cost and fair value.

Responses to the detailed questions set out in the CP are presented in the appendix.

Yours sincerely,

Michel Prada

APPENDIX

Preliminary View 1

The IPSASB's Preliminary View is that fair value, fulfillment value, historical cost and replacement cost require additional 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.

The CNoCP agrees that additional application guidance as to how to apply measurement bases in the IPSAS suite of standards is useful and welcomes the efforts put in the Measurement project.

1. Ensuring overall consistency of the approach proposed in the Consultation Paper

However, to ensure the overall consistency of the approach proposed in the CP, we would suggest that the rationale for retaining some measurement bases over others should be better explained.

For instance, the CP refers to value in use as a measurement basis that would not need application guidance to be included in the future standard on Measurement. The reason stated¹ is that specific guidance currently exists in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*. Also, as value in use applies to specific transactions, it would not be considered generic measurement which is the primary target of the future IPSAS on Measurement.

However, one could argue that firstly, value in use is listed as a measurement basis in the Conceptual Framework². Secondly, value in use is extensively described in IPSAS 21 and IPSAS 26³ as an alternative measurement basis to fair value for determining the recoverable amount using several approaches as appropriate. In that respect, methods to measure fair value and value in use can be similar (for instance the use of discounted cash flows), but still provide different outcomes. Lastly, impairment is a major component of the cost model⁴ as set out in IPSAS 17, *Property, Plant and Equipment* and in IPSAS 31, *Intangible Assets*.

¹ See footnote 14 on page 16 of the Consultation Paper (CP).

² See Conceptual Framework, section on Measurement bases for assets in paragraphs 7.58-68.

³ See IPSAS 21.44-49 and IPSAS 26.43-70.

⁴ See IPSAS 17.42-81: under the cost model, “*an item of property, plant and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses*”.

Because value in use is an alternative to fair value in measuring the recoverable amount of a potentially impaired asset subsequently measured using the cost model, incorporating the related existing guidance in IPSAS 21 and IPSAS 26 would be more consistent with the inclusion of guidance on both historical cost (appendix C) and fair value (appendix A). Additionally, bringing together in one same standard guidance on how to measure value in use of a non-cash generating asset and value in use of a cash generating asset would help conveying the idea that service potential, measurable to some extent, is a critical feature of public sector accounting specificities, as underlined in paragraph 14 of the Preface to the Conceptual Framework.

2. Increasing consistency between the Conceptual Framework and individual standards

When considering whether the list of measurement bases in the CP is complete, the CNoCP noted that a number of measurement bases listed in the Measurement section of the Conceptual Framework were never actually referred to within the individual standards. This is specifically the case for net selling price, cost of release and assumption price. We therefore question if those measurement bases should be retained in the Conceptual Framework.

Conversely, should those measurement bases be alternative bases as per the diagrams⁵ for the choice of subsequent measurement bases for assets and liabilities, they should be clearly labelled as such and included in the future standard on measurement with some application guidance. From a practical viewpoint, based on the fact that the diagrams mention alternative bases, the future standard on measurement would prove more comprehensive if it listed measurement bases and their alternate choices. This would highly increase the relevance of such a standard for preparers.

With respect to market value, defined in the Conceptual Framework, we observe that the term is used in some instances in IPSAS 17 as well as in several other standards. Market value is also widely used in the System of National Accounts (SNA)/Government Finance Statistics Accounts Manual (GFSM), alongside fair value, but seemingly with somewhat different meanings. For the sake of consistency with GFS on the one side and with IFRSs on the other side, either with a view to align or to explain why departure is necessary, differences should be carefully reviewed. Ensuring consistency on this specific topic would better be addressed in the Measurement project, with any consequences affecting the Conceptual Framework.

⁵ See diagrams 4.1 and 4.2 in CP on pages 38 and 41.

Preliminary View 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.

First of all, we agree that the definitions of all measurement bases referred to in individual IPSASs should be located in one same overall standard on Measurement.

We also welcome that application guidance is proposed in the form of an overall standard that fills the gap between the Conceptual Framework and individual standards. The future standard on measurement would be a useful addition to the IPSAS suite of standards, all the more that, contrary to IFRS 13 *Fair Value Measurement*, it is designed to cover the generic measurement bases used in the public sector.

However, selecting measurement bases depending on whether they are generic in nature may create gaps in the development of application guidance that could be useful to preparers. Exactly how generic a measurement basis is may be rather subjective. In addition, setting-up an exhaustive list of measurement bases might prove complex, for instance in drawing a line between measurement bases and measurement techniques. For the future standard to be fully operational, we would therefore recommend that measurement bases that are mentioned throughout the standards should be listed, with a clear rationale as to why application guidance is not deemed necessary in some instances. From a practical standpoint, as well as in the public interest, this is especially true of measurement bases that could illustrate alternative measurement bases as identified in the decision tree for the choice of the subsequent measurement basis in diagrams 4.1 and 4.2.

Preliminary View 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.

At the CP stage of the process, in the absence of a census of measurement bases, it seems difficult to assess whether application guidance is complete. We did not explore to what extent relocating guidance might have consequences on the measurement requirements in individual standards.

In addition, as mentioned above, perceived inconsistencies exist between the Conceptual Framework, individual IPSAS standards and GFS. As a consequence, we would rather wait for an overall more comprehensive document before we assess each and every application guidance.

Preliminary View 4

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.

As far as fair value guidance is concerned, the reference above to the need for a more comprehensive overall context is all the more critical that there is a perceived tension with the use of market value as a standalone measurement basis. This is a reason why the difference between the two terms, if any, and the related consequences should be explored as part of the CP phase rather than during the limited review of the Conceptual Framework.

Other than the general comment above, we would not comment on an application guidance drawn from IFRS 13 for those elements that are measured using fair value in accordance with the relevant IPSAS, where fair value meets the same definition as in the private sector.

Preliminary View 5

The IPSASB's Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment 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.

As a general preliminary comment, a quick review of the Handbook published in 2018 shows that cost of fulfilment is only mentioned in the Conceptual Framework. Unless we're mistaken, no current standard seems to require measuring liabilities using cost of fulfilment. It is therefore somewhat uncomfortable to comment on application guidance for that measurement basis.

In addition, we note that IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* requires that liabilities should be measured at “best estimate”⁶ or present value. As a consequence, we would recommend that the IPSASB should elaborate on how cost of fulfilment would articulate with “best estimate”. We are wondering whether the proposed change is only to update the terminology and definition or if it might bring unintended consequences.

Preliminary View 6

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost–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.

We observe that replacement cost is used in several occasions in the suite of IPSAS standards, for instance as follows:

- In IPSAS 12, current replacement cost is defined as “*the cost the entity would incur to acquire the asset on the reporting date*”⁷;

⁶ See IPSAS 19.44-45: best estimate is “the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time”.

⁷ See IPSAS 12.9.

- IPSAS 17⁸ refers to depreciated replacement cost as an estimation of fair value in the case of specialised buildings measured using the revaluation model. Incidentally, the question of the distinction between a measurement model and a measurement basis could also be raised here;
- IPSAS 21⁹ also uses a reference to depreciated replacement cost, though more as an approach, to measure “*the present value of the remaining service potential of an asset.*”;
- In the Conceptual Framework, it is further described as a surrogate¹⁰ for value in use in those cases where expected cash flows are inappropriate.

Based on the above observation, replacement cost could be perceived as a subset of fair value. We would therefore question whether it is relevant to discuss replacement cost in a standalone appendix. In that line of thoughts, we note that IFRS 13¹¹ refers to replacement cost as a valuation technique to measure fair value. Conversely, the decision tree in diagram 4.1 indicates that replacement cost is to be selected for assets that are held for their operational capacities; hence, replacement cost is considered different from fair value that would be selected for assets that are held for their financial capacities. We would therefore recommend that the IPSAS Board decide whether replacement cost should be related to fair value; if it should, we would be grateful that the Board elaborate on the consequences, especially with respect to the decision trees. We believe that it is critical to resolve that perceived inconsistency before an opinion can be formed on the merits of Appendix D.

Another issue that arises from the above finding is that, should replacement cost be considered a fair value-type of measurement, then one could argue that the distinction between operational and financial capacities is somehow conceptually flawed and practically not helpful. We would appreciate if the IPSAS Board could tackle this additional concern.

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?

⁸ See IPSAS 17.47.

⁹ See IPSAS 21.45.

¹⁰ See Conceptual Framework paragraph 7.67.

¹¹ See IFRS 13.B8.

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

We believe that the proposed solution is sound and simple in the public sector.

The proposed accounting treatment is consistent with the way borrowing costs are accounted for at central government level in France. At local public authority level, borrowings are decided on a general basis and cannot be allocated to specific investments. Therefore, calculating a relevant figure for borrowing costs would be challenging.

The proposed accounting treatment that departs from IAS 23, however raises the issue of consistency where public sector entities report under IPSASs and are controlled by an entity that reports under IFRSs, or where a public sector entity controls an entity that establishes its separate financial statements under IFRSs.

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.

Overall, the proposed definition seems operational and in line with current practices in France.

We would recommend that, given that the definition mentions “costs that are directly attributable to the acquisition”, transaction costs and costs directly attributable to an asset as described in IPSAS 17.30-36A should be better articulated, either in the future standard or in IPSAS 17.

Preliminary View 9

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

While we view the accounting for transaction costs as very specific and ancillary to the future measurement standard, we believe that it is still helpful for preparers and users that they are addressed as a cross-cutting issue within the Measurement standard.

Preliminary View 10 and Preliminary View 11

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

- *Excluded in the valuation of liabilities measured at fulfillment 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.*

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

- *Included in the valuation of liabilities measured at fulfillment value;*
- *Excluded from the valuation of assets and liabilities measured at fair value; and*
- *Excluded 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.

We welcome the proposal that ensures consistency between entering and exiting a transaction, as well as internal consistency within a measurement basis. However, we would encourage the Board to further explain why transaction costs should be excluded from exit value measurement.

As evidenced in our response to PV6, replacement cost seems to be considered a current value measurement basis. In that respect, because the proposed accounting treatment for transaction costs for assets measured using historical cost is the same as that for assets measured using replacement cost, we would recommend that the future requirements elaborate on the consequences. To be more specific, a difference may arise in the accounting treatments for two same assets A and B, where asset A is measured at replacement cost used as a proxy for fair value and fair value is used to measure asset B. Under the current proposal, transaction costs would then be excluded from the valuation of asset B, while included in the valuation of asset A.

Specific Matter for Comment 1

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

In line with our assessment of the list of measurement bases in our response to PV1, we feel uncomfortable to assess the completeness of the list of definitions in the Illustrative ED. However, the list of definitions is quite a long one, which we believe may not be a good indication for a practical and easy implementation of requirements.

As far as the list of definitions is concerned, we would question why the “cost model” is not defined when the “cost approach” is, even more so that both notions refer to cost. In addition, as discussed in our response to PV6, “cost model” is a historical cost-based measure, where “cost approach” could be related to current value. It would also be helpful either to explain in what a valuation technique is different from a valuation model, or else to use the same term to avoid confusion.

Moreover, some definitions include a reference to the timing of measurement that varies depending on the measurement basis: for instance, “*at the measurement date*” for fair value and “*at the time of its acquisition or development*” for historical cost. Such differences could be perceived as bringing in inconsistency, all the more as the CP does not specifically refer separately to measurement at initial recognition on the one hand and to subsequent measurement on the other hand.

Specific Matter for Comment 2

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB’s conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

With respect to the concepts of equitable value and of synergistic value, though of potential interest, we believe that it is premature at this stage to include them in the future Measurement standard. More specifically, because no individual standard currently refers to those notions, including them would only bring about complexity in the public sector that, in some jurisdictions, might lack the immediate resources to fully grasp the concepts.

Specific Matter for Comment 3

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- *The Conceptual Framework Measurement Objective;*
- *Reducing unnecessary differences with GFS;*
- *Reducing unnecessary differences with IFRS Standards; and*
- *Improving consistency across IPSAS.*

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

The diagrams help understanding the distinction between operational capacity and financial capacity and the consequences on the choice of the subsequent measurement bases.

We also think that a useful addition to the diagrams could be to address measurement upon initial recognition.

As we find the diagrams useful, we believe that their locations could be discussed; they could either be added to the future standard, even though its objective is not to decide of the best measurement basis, or included within the Conceptual Framework to illustrate how to use operational and financial capacities.