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Ian Carruthers  
Chairman  
International Public Sector Accounting Standards  
Board  
International Federation of Accountants

Submitted via website

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## Comments to IPSASB's Consultation Paper "Measurement"

Dear Mr. Carruthers,

We are pleased to respond to the IPSASB's Consultation Paper "Measurement".

We observe that in many jurisdictions, and especially in the European context, there is an ongoing discussion on suitable guidance for measurement. In this context, it is often discussed whether there would be one single best measurement bases for the valuation of assets and liabilities in the public sector. Following the accountability perspective of public sector accounting, it is argued that in case of a single measurement model, the historical cost approach would be best suitable to fulfil the information needs of users. Against the background of these discussions we would encourage the IPSASB to explain the rationale for its mixed measurement approach to constituents.

Generally, we appreciate the IPSASB's far-reaching approach on how to deal with measurement guidance in its literature. The only concern that we have is that such an approach might create a three level-guidance-system (i.e. measurement guidance within IPSASB's Conceptual Framework, guidance within the Measurement standard and guidance at standards level). This might lead to confusion for constituents and might need further explanation. For the Board itself it might be difficult to maintain consistency between the three levels. However, we share IPSASB's view that the application of measurement bases should be covered in a Measurement standard while the other standards would be updated to merely indicate which specific measurement basis to apply for a specific transaction/item. To ensure consistency, a comprehensive review of all standards seems necessary. IPSASB's current Measurement project as well as the Limited Scope Review of IPSASB's Conceptual Framework seem to be suitable means to achieve that goal.

The approach proposed by the IPSASB in the CP/ED, implies centralizing the guidance on measurement in a standard. This leads in our view to the question whether guidance on notes disclosures re. measurement should be centralized as well. In our view, the disclosure on specific transactions can still be dealt with in specific standards, but some disclosures are linked to measurement bases e.g. fair value (sensitivity, source). These disclosures can be a standard set of requirements that should be applied uniformly for a particular measurement basis and could be subject to such centralized guidance on measurement-related notes disclosures.

For our detailed responses, please see the Annex.

Please do not hesitate to contact Thomas Müller-Marqués Berger or Dr. Jens Heiling in case of any additional questions or remarks.

Sincerely,

Thomas Müller-Marqués Berger  
Partner

ppa. Dr. Jens Heiling  
Senior Manager

*Annex - detailed responses*

**Preliminary View 1 – Chapter 2 (following paragraph 2.6):**

*The IPSASB's Preliminary View is that the fair value, fulfillment 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.*

We agree that fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance. A Standard on Measurement is an innovative approach to realize that.

Given the fact that IPSASB's Conceptual Framework defines "net selling price" and IPSAS 12 defines "net realizable value" for the measurement of inventories we suggest

- a) To use the measurement project to provide consistency between those two definitions;
- b) To provide application guidance for "net selling price/net realizable value".

In that context, we would suggest to review IPSAS 12 for the measurement of inventories held for service delivery.

**Preliminary View 2 – Chapter 2 (following paragraph 2.6):**

*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.*

We agree with the IPSASB 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. We consider having an IPSAS on Measurement as a suitable and innovative approach. As outlined earlier, we suggest extending the generic application guidance to "net selling price/net realizable value". We also agree that transaction specific measurement guidance shall be included in the individual standards providing accounting requirements and guidance for assets and liabilities. In our view it might be helpful to clarify to users what is meant by "transaction specific measurement guidance".

**Preliminary View 3 – Chapter 2 (following paragraph 2.10):**

*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, and state what guidance should be included, and why.*

We agree that guidance on historical cost should be derived from existing text in IPSAS and that App. C is complete.

**Preliminary View 4 – Chapter 2 (following paragraph 2.16):**

*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, and state what guidance should be included, and why.*

We generally agree that fair value guidance should be aligned with IFRS 13. We are of the view that the definition of "fair value" in the IPSAS literature should be the same in the public as well as the private sector. Generally, we consider *Appendix A: Fair Value-Application Guidance*, to be complete. However, we see that the use of fair value in the understanding of IFRS 13 has some clear limitations in the public sector. The IPSASB should therefore be more explicit about the limitations of the use of fair value (e.g. concept of the highest and best use of an asset) in the public sector (either in the standard on Measurement or in a revised Conceptual Framework).

We suggest that the IPSASB removes "market value" as a public sector measurement basis from its Conceptual Framework and define "fair value" in the Conceptual Framework in line with the Measurement standard.

**Preliminary View 5 – Chapter 2 (following paragraph 2.28):**

*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, and state what guidance should be included, and why.*

We agree that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. We consider *Appendix B: Fulfilment Value-Application Guidance*, to be complete.

**Preliminary View 6 – Chapter 2 (following paragraph 2.28):**

*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, and state what guidance should be included, and why.*

We agree that the replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. In our view, more specific application guidance on replacement cost should be provided, especially how to determine replacement cost in the case of specialized asset/infrastructure assets in the public sector. With regards to the definitions in the ED, we suggest to use the term "current replacement cost approach" rather than "cost approach" to avoid mixing that up with the cost model used in IPSAS 16/17/31. We consider *Appendix D: Replacement Cost-Application Guidance*, to be complete.

**Preliminary View 7 – Chapter 3 (following paragraph 3.28):**

*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 provide your reasons, and state what guidance should be included, and why.*

We agree with the IPSASB's Preliminary View 7 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.

**Preliminary View 8 – Chapter 3 (following paragraph 3.36):**

*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 state what guidance should be included, and why.*

We agree with the IPSASB's Preliminary View 8 that transaction costs in the public sector should be defined as outlined above.

**Preliminary View 9 – Chapter 3 (following paragraph 3.42):**

*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.*

For consistency and efficiency reasons, and despite the fact that there will be deviations from IFRS, we agree that transaction costs should be addressed in the IPSAS, *Measurement*, standard for all IPSAS.

**Preliminary View 10 – Chapter 3 (following paragraph 3.54):**

*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.*

*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 agree with IPSASB's Preliminary View and consider the IPSASB's rationale for such an approach as convincing. In our view, the formulation "entering a transaction" could be misleading and we suggest to better refer to the disposal of an asset or to the transfer of a liability.

**Preliminary View 11 – Chapter 3 (following paragraph 3.54):**

*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 agree with IPSASB's Preliminary View and consider the IPSASB's rationale for such an approach as convincing. In our view, the formulation "exiting a transaction" could be misleading and we suggest to better refer to the sale of an asset or to the settlement of a liability.

**Specific Matter for Comment 1 – Chapter 2 (following paragraph 2.29):**

*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.*

As outlined earlier, in case that the IPSASB concludes to retain ““net selling price/net realizable value” in it literature, we would suggest extending the list of definitions in the ED by measurement basis. To avoid duplication of definitions, we assume that the IPSASB will align the definitions in the Conceptual Framework and the Measurement standard.

**Specific Matter for Comment 2 – Chapter 3 (following paragraph 3.5):**

*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)?*

We have no further remarks on the IPSASB’s conclusions on the apparent similarities between IPSAS, IVS and GFS. Given the fact that neither equitable value nor synergistic value (or a comparable measurement bases) have been defined in IPSASB’s Conceptual Framework, we don’t see a need to review those measurement bases for relevance to measuring public sector assets. The IPSASB may generally assess in that context whether it should extend its alignment policy to also align with IVS. In our view, a joint approach by the IASB and the IPSASB would be preferable.

**Specific Matter for Comment 3 – Chapter 4 (following paragraph 4.21):**

*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 [...]*

*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.*

We agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide in general a helpful and useful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS. With regards to the use of replacement cost and historical cost, we would suggest elaborating under what circumstances the one or the approach should be preferred.

We suggest to also consider the following factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS:

- ▶ Concept of capital maintenance (nominal versus real capital maintenance)
- ▶ Availability of information and cost of information to determine a certain measurement basis

Finally, the factor “Contribution to, or subtraction from, future cash flows” in para. 4.9 (b) of the CP should be defined from a public sector perspective and therefore primarily refer to service potential and not to cash flows.

**Specific Matter for Comment 3 – Chapter 4 (following paragraph 4.21):**

*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 [...]*

*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.*

We agree that the measurement flow charts provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS.