ACT Government
Chief Minister, Treasury and Economic Development

Mr Ian Carruthers
Chair
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

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Dear Mr ~~Carruthers~~

Consultation Paper *Measurement*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the invitation to provide feedback on the Measurement consultation paper.

HoTARAC is comprised of senior public sector specialists in accounting and financial reporting in the Australian, State and Territory Governments. HoTARAC's interest in the topic arises from its members' roles in preparing public sector financial statements.

Australian, State and Territory Governments and most other public sector entities are required to apply Australian Accounting Standards (AAS). These are based on IFRS and include AASB 13 *Fair Value Measurement* (the equivalent of IFRS 13). Financial reports are also required to comply with the measurement and recognition principles in the Australian Bureau of Statistics GFS Manual, where these do not conflict with Australian Accounting Standards.

HoTARAC's response to the specific matters for comment attached to this letter. If you have any queries regarding our comments, please contact Sean Osborn from New South Wales Treasury on +61 2 9228 5932 or by email to sean.osborn@treasury.nsw.gov.au.

Yours sincerely

David Nicol
CHAIR
Heads of Treasuries Accounting and Reporting Advisory Committee
~~31~~ October 2019

Attachment: Consultation Paper *Measurement*

HoTARAC Comments to the IPSASB Consultation Paper *Measurement*

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.

HoTARAC agrees.

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.

HoTARAC agrees.

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, stating clearly what you consider needs to be changed.

The majority of Australian jurisdictions mandate their agencies value their assets at fair value for consistency with GFS principles and therefore have limited interaction with historical cost, therefore have no comment.

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, stating clearly what you consider needs to be changed.

HoTARAC agrees and supports principles based guidance that aligns with the existing IFRS 13. As noted above, the majority of Australian jurisdictions use fair value and, in line with IFRS 13 do not generally need to consider an entry price as noted in para 2.23 of the consultation paper (in reference to current value). Rather the exit price is considered when determining the price of fair value as per para 24 of IFRS 13. An alignment to IFRS 13 will be consistent with general GFS principles, where fair value is assumed to be the best proxy for market value, which is also determined by reference to an exit price.

HoTARAC recommends that the application guidance considers circumstances in which it may be difficult for public sector entities to apply. For example, it can be difficult to apply the concept of a principal market when there is no market for many public sector assets.

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, stating clearly what you consider needs to be changed.

The approach proposed is consistent with the IFRS Conceptual Framework to be adopted in Australia and HoTARAC has no further suggestions.

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, stating clearly what you consider needs to be changed.

HoTARAC notes that paragraph 2.17 suggests further work is to be done on aligning the concept of replacement cost as measurement base and replacement cost as a measurement technique.

Apart from this, HoTARAC has no comment on whether the guidance is complete but agrees in principle that aligning the conceptual framework and guidance will reduce confusion and promote consistency.

Preliminary View 7—Chapter 3 (following paragraph 3.28) The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalised, 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.

HoTARAC agrees. It is more relevant for users to be able to identify total borrowing costs as a line item, rather than some of these costs being capitalised into asset values. The same rationale applies under GFS and expensing borrowing costs is consistent with GFS principles.

HoTARAC recommends the inconsistency in the rationale for the treatment of entity –specific costs between paragraph D27 and 3.7 is also addressed.

We note for for-profit entities the Australian accounting standard AASB 123 *Borrowings* requires these costs to be capitalised (para 8). However not-for-profit entities have the option to capitalise or expense. Some Australian jurisdictions, including NSW have chosen to mandate expensing these costs to align to the GFS requirements.

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 provide an alternative definition for the IPSASB to consider.

HoTARAC agrees.

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.

HoTARAC notes that while this appears reasonable for consistency purposes, the result is confusion over the circumstances in which transaction costs are included.

For example, Table 3.1 excludes transaction costs from fair value. Replacement cost is used as an estimate of fair value in IPSAS 16, suggesting the exclusion of transaction costs. However, paragraph D27 states:

> "As an asset's replacement cost represents an entity-specific entry price to replace the service potential of the asset, transaction costs incurred in acquiring, or that would be incurred in replacing, the asset are included in its determination."

HoTARAC notes that paragraph 2.17 acknowledges the tension between replacement costs as measurement basis and measurement techniques and the requirement for further development through the Conceptual Framework.

HoTARAC questions whether these type of issues can addressed until the underlying conceptual framework project is advanced.

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.

The fair value accounting proposed by IPSASB i.e. to exclude transaction costs is consistent with the current methodology used in Australian accounting standards. IFRS and Australian accounting standards exclude transaction costs from current replacement cost, therefore there is an apparent inconsistency between these and the IPSASB proposal.

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.

The fair value accounting proposed by IPSASB i.e. to exclude transaction costs is consistent with the current methodology used in Australian accounting standards and therefore HoTARAC agrees with this approach.

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.

HoTARAC has no further suggestions of definitions.

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)?

HoTARAC agrees with the proposal of alignment and reducing differences where possible. HoTARAC notes GFS focuses on market based measurement and the concepts within the IVS 2017 (shown in Table 3.3) of equitable value and synergistic value may not necessarily align with GFS principles. However, GFS does allow for the concept of goodwill and HoTARAC suggests the IPSASB acknowledge this in the table.

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, 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.

HoTARAC notes in principle these diagrams are a good starting point.

In terms of feedback for Diagram 4.1 HoTARAC suggests:

- there is an option for assets held under operational capacity to be valued at fair value. This would be consistent with IFRS and GFS principles; and
- a minor change in the format in the diagram. The first question under the operational model should lead to replacement cost rather than current or historical cost, as replacement cost is more aligned to GFS concepts. While acknowledged both are allowed, we believe readers should be directed to this measurement base first.