



PO Box 1077
St Michaels, MD 21663
USA
T. 410-745-8570
F. 410-745-8569

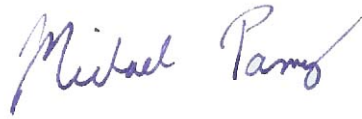
11 September, 2019

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2
CANADA

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultation Paper "Measurement" issued April 2019.
2. The ICGFM is primarily concerned with the financial management of sovereign governments. We are of the view that as far as feasible IPSAS should be consistent with IMF Government Finance Statistics (GFS) requirements as set out in the latest edition of the GFS Manual. This is reflected in our comments.
3. Governments across the world present citizens with two financial reports – one prepared according to statistical guidelines (usually GFS, ESA in the European Union), the other based on IPSAS or national reporting standards. Whilst there will be inevitable differences in coverage between these reports, it is difficult to justify to citizens why these two reports value assets and liabilities differently. However much the explanations are wrapped up in technical jargon, such differences inevitably cause confusion and devalue both reports. It is therefore our view that harmonisation of IPSAS with GFS is as important as harmonisation with IFRS.
4. We appreciate the opportunity to comment on this Exposure Draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,

A handwritten signature in blue ink that reads "Michael Parry". The signature is written in a cursive style with a large, stylized 'M' and 'P'.

Michael Parry

Chair, ICGFM Accounting Standards Committee

Cc: Lucie Philips, President, ICGFM

Members

Michael Parry, Chair

Andrew Wynne

Anne Owuor

Hassan Ouda

Tetiana Iefymenko

Jesse Hughes

Mark Silins

Nino Tchelishvili

Paul Waiswa

Preliminary View	ICGFM Comment
<p>Preliminary View 1—Chapter 2 (following paragraph 2.6)</p> <p>The IPSASB’s Preliminary View is that the fair value, fulfilment value, historical cost and replacement cost measurement bases require application guidance.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.</p>	<p>Agreed</p>
<p>Preliminary View 2—Chapter 2 (following paragraph 2.6)</p> <p>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.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>If not, please provide your reasons, and state what guidance should be included, and why.</p>	<p>Agreed</p>
<p>Preliminary View 3—Chapter 2 (following paragraph 2.10)</p> <p>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.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>If not, please provide your reasons, stating clearly what you consider needs to be changed.</p>	<p>Agreed.</p>

Preliminary View	ICGFM Comment
<p>Preliminary View 4—Chapter 2 (following paragraph 2.16)</p> <p>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.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>If not, please provide your reasons, stating clearly what you consider needs to be changed.</p>	<p>Agreed, but see below</p> <p>GFS defines value as the market value of an asset or liability. If market value is not available surrogate measures that best approximate market value should be used.</p> <p>In practical terms we can see no difference between the definition of fair value in the illustrative ED (and Conceptual Framework) and market value, except that there is no specific guidance on what to do in the absence of an active market for the asset or liability.</p>
<p>Preliminary View 5—Chapter 2 (following paragraph 2.28)</p> <p>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.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>If not, please provide your reasons, stating clearly what you consider needs to be changed.</p>	<p>Agreed</p> <p>Our view is that fulfilment value is one example of a surrogate measure where there is no active market</p>
<p>Preliminary View 6—Chapter 2 (following paragraph 2.28)</p> <p>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.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>If not, please provide your reasons, stating clearly what you consider needs to be changed.</p>	<p>Agreed</p> <p>Again, replacement cost is effectively the market value of a replacement asset</p>
<p>Preliminary View 7—Chapter 3 (following paragraph 3.28)</p> <p>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.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>If not, please state which option you support and provide your reasons for supporting that option.</p>	<p>Agreed, but see below</p> <p>This a difficult issue as in some countries high borrowing costs if expensed may distort decisions about whether to acquire assets through self-build or through some form of public-private partnership</p>

Preliminary View	ICGFM Comment
<p>Preliminary View 8—Chapter 3 (following paragraph 3.36)</p> <p>The IPSASB’s Preliminary View is that transaction costs in the public sector should be defined as follows:</p> <p>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.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.</p>	<p>Agreed</p>
<p>Preliminary View 9—Chapter 3 (following paragraph 3.42)</p> <p>The IPSASB’s Preliminary View is that transaction costs should be addressed in the IPSAS, <i>Measurement</i>, standard for all IPSAS.</p> <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>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.</p>	<p>Agreed</p>
<p>Preliminary View 10—Chapter 3 (following paragraph 3.54)</p> <p>The IPSASB’s Preliminary View is that transaction costs incurred when entering a transaction should be:</p> <ul style="list-style-type: none"> - 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. <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>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.</p>	<p>Agreed</p>

Preliminary View	ICGFM Comment
<p>Preliminary View 11—Chapter 3 (following paragraph 3.54)</p> <p>The IPSASB’s Preliminary View is that transaction costs incurred when exiting a transaction should be:</p> <ul style="list-style-type: none"> - Included in the valuation of liabilities measured at fulfilment 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. <p><i>Do you agree with the IPSASB’s Preliminary View?</i></p> <p>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.</p>	<p>Agreed</p>
<p>Specific Matter for Comment 1—Chapter 2 (following paragraph 2.29)</p> <p>Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.</p> <p><i>Do you agree that the list of definitions is exhaustive?</i></p> <p>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.</p>	<p>Agreed, we have nothing to add</p>
<p>Specific Matter for Comment 2—Chapter 3 (following paragraph 3.5)</p> <p>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. <i>Do you have any views on whether the IPSASB’s conclusions on the apparent similarities are correct?</i></p> <p><i>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)?</i></p>	<p>We consider the valuation principles in GFS are of much greater significance because both IPSAS and GFS financial reports will be prepared from the same database of accounting information</p>

Preliminary View	ICGFM Comment
<p>Specific Matter for Comment 3—Chapter 4 (following paragraph 4.21)</p> <p><i>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:</i></p> <ul style="list-style-type: none"> - The Conceptual Framework Measurement Objective; - Reducing unnecessary differences with GFS; - Reducing unnecessary differences with IFRS Standards; and - Improving consistency across IPSAS. <p><i>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.</i></p>	<p>In our view the IPSAS valuation approach lacks the conceptual simplicity and elegance of the GFS approach. The latter has a single valuation principle and everything else flows from this principle.</p> <p>This is reflected in the diagrams 4.1 and 4.2 which are complex and fail to establish any underlying principle.</p> <p>We therefore concur with the additional areas that need to be considered</p>