



KOREA INSTITUTE OF PUBLIC FINANCE

Government Accounting and Finance Statistics Center

IPSASB Consultation Paper

*Measurement*

# ***Comments on the Consultation Paper, Measurement***

September 20, 2019

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John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2 Canada

**Re: The comments on the Consultation Paper,  
*Measurement***

Dear Mr. Stanford,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the “GAFSC”) at Korea Institute of Public Finance would like to thank for the opportunity to response to Consultation Paper, *Measurement* issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff and the Government Accounting Advisory Committee of the GAFSC, and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of the GAFSC, Jin Woong ([jjwoong@kipf.re.kr](mailto:jjwoong@kipf.re.kr)).

Sincerely,



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Moon, Chang-Oh  
Vice Acting Director of GAFSC at KIPF

**Preliminary View 7 (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 state which option you support and provide your reasons for supporting that option.

[GAFSC comments] We do not agree with the IPSASB's Preliminary View. We would propose that in principle, the borrowing costs be capitalized for qualifying assets. Otherwise would allow it to be expensed if capitalizing borrowing costs is challenging to apply.

As mentioned in paragraph 3.13 of the Consultation Paper, it is not difficult for all public sector entities to track and attribute borrowing costs for individual qualifying assets. Among the public sectors, central government may find it challenging to attribute borrowing costs for qualifying assets because of centralized borrowing decisions. However, most of the remaining public sector entities, including local governments and public corporations, have the authority to make their own borrowing decisions, so it would not be difficult to track and attribute borrowing costs. In Korea, in this regard, the central government is required to account for all borrowing costs to be expensed, whereas public corporations are required to capitalize borrowing costs aligning with IFRS.

When borrowing costs are capitalized, it can increase the usefulness of accounting information that is useful for both enhancing accountability and decision making by linking borrowing costs to assets by which borrowing costs is incurred. In addition, since not only it coincides with the concept of acquisition costs, but also borrowing costs are recognized as expenses over the relevant reporting period, to capitalize borrowing costs has a firmer foundation in the perspective of accounting concept than to account for borrowing costs as an expense.

Qualifying assets subject to capitalization of borrowing costs are usually measured at historical cost, an applied criteria for entry based measurement basis. When economic resources are measured at entry value, users of financial statements expect to obtain information about the amount paid to acquire the asset. Therefore, borrowing costs should be included in the amount required to acquire an asset and it could be

useful to users of financial statements to assess accountability and decision making.

Accordingly, it is difficult to find a valid reason for IPSASB to make IPSAS be departed from IFRS regarding the principle of accounting for borrowing costs. Therefore, it is reasonable to use the principle of capitalizing borrowing costs for qualifying assets, as required by IAS 23. As such, capitalizing borrowing costs could help IPSAS to be aligned with IFRS, as noted in the Consultation Paper, and would reduce the burden of transitioning financial statements for public sector entities required to apply both IPSAS and IFRS.

However, it is necessary to consider whether it is appropriate to provide a practical expedient that would allow entities in the public sector, specifically central government in case it is incapable of tracking and attributing borrowing costs for qualifying assets to account for borrowing costs as an expense.

[Additional comments]

Apart from the feedback on PV 7, in addressing whether or not to departing from IFRS, IPSASB should consider whether the rationale for departure is based on the theoretical differences between the public and private sectors or the practical conditions of the public sector. If the theoretical differences lead to departing from IFRS, it is reasonable to develop principles specific to the public sector. On the other hand, if the departure from IFRS is needed due to practical conditions of the public sector, it would be appropriate to use the same accounting principles with IFRS but to give the public sector entities an option to choose alternative accounting principle in the form of a practical expedient.

### **Preliminary View 8 (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.

[GAFSC comments] We agree with the IPSASB's Preliminary View.

**Preliminary View 10 (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.

[GAFSC comments] We agree with the IPSASB's Preliminary View.

**Preliminary View 11 (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.

[GAFSC comments] We agree with the IPSASB's Preliminary View.

[Additional comments on the PV8, PV10 and PV11]

As mentioned in paragraph 2.27 of the Consultation Paper, as the IPSAS provide limited guidance on applying fulfillment value, it makes difficult to predict the type or examples of transaction costs that could arise when entering into or exiting a transaction in respect of a liability measured at fulfillment value. In particular, in measuring a liability at fulfillment value, preparers would be likely to estimate the amount of future cash flows required to settle the liability including both the (expected) settlement amount and the (expected) transaction costs. In other words, measuring a liability at fulfillment value implicitly includes the transaction costs required to exit the transaction.

Given these features of fulfillment value, IPSASB needs to provide additional explanations or examples of the transaction costs incurred when entering or exiting the transaction in respect of the liability measured at fulfillment value. It would be informative to discuss the definition and accounting principles of transaction costs.

### **Specific Matter for Comment 3 (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.

[GAFSC comments] We agree in principle with the measurement flow chart proposed by the IPSASB

We suggest to consider the following. GFS guides to measure the liability at market value rather than historical cost. By the way the Consultation Paper states to measure a liability at historical cost in case the amount is certain and the date of settlement is known. So the flow chart proposed by the IPSASB may incur a

difference between IPSAS and GFS.