

October 29, 2021

International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: Response to Exposure Draft 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*

Thank you for the opportunity to provide input on Chapter 7 of the Conceptual Framework.

Overall, PSAB is supportive of the proposals in ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements*. The comments set out in this letter are the views of PSAB. PSAB agrees with the following proposals:

- the three-tier measurement hierarchy;
- the continued inclusion of fair value as a measurement basis for assets and liabilities with the same definition as IFRS 13, *Fair Value Measurement*;
- the inclusion of current operational value as a measurement basis for assets; however, PSAB agrees with the alternative view that the definition is unclear as it stands and has provided some suggestions;
- the deletion of market value for assets and liabilities and replacement cost for assets; and
- the deletion of net selling price for assets, cost of release for liabilities and assumption price for liabilities.

Finally, PSAB also included some editorial and stakeholder comments for IPSASB to consider at the end of this document.

We hope that you find the comments helpful.

Kind regards,

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Chair, Public Sector Accounting Board

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RESPONSES TO SPECIFIC MATTERS FOR COMMENT

Specific Matter for Comment 1

ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy?

If not, why not? How would you modify it?

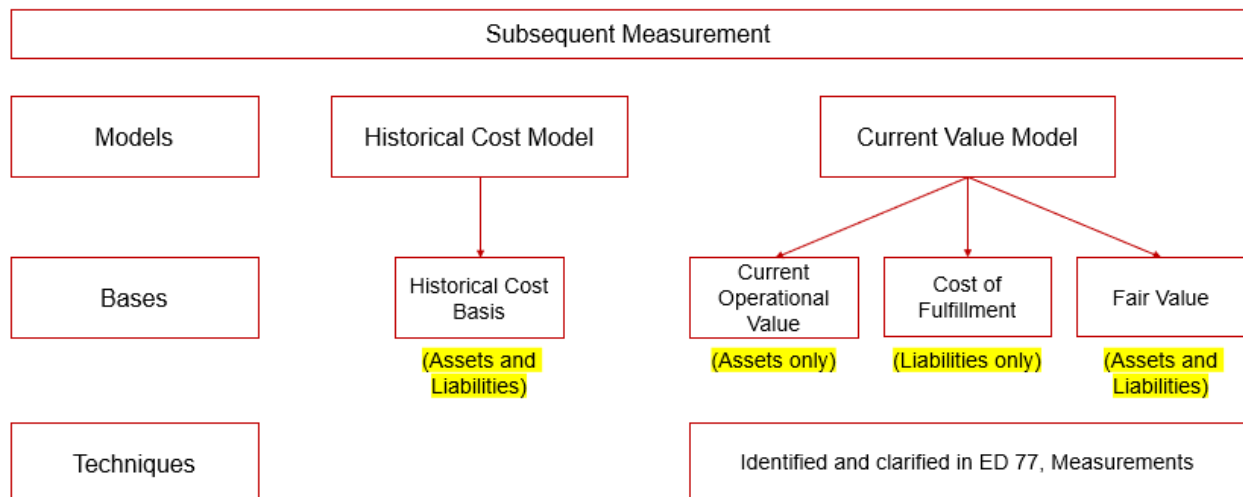
PSAB Response

PSAB agrees with the proposed measurement hierarchy. It is easy to understand, and the difference between measurement models, measurement bases and measurement techniques is clear. Diagram 1, which provides a visual depiction of the measurement hierarchy, was very helpful in understanding the relationship between the three levels.

PSAB agrees with IPSASB’s decision not to identify and discuss measurement techniques in the Conceptual Framework, and with the decision to provide detailed guidance at the standards level. That level of detail would not be appropriate for the Conceptual Framework and should be kept at the standards level.

PSAB has proposed some minor changes to Diagram 1 to make it clearer that not all Measurement bases are available to both assets and liabilities. This is not clear in the current version of the diagram. Changes to the diagram are highlighted in yellow.

Diagram 1: The measurement hierarchy for subsequent measurement and the relationship between the three levels



Specific Matter for Comment 2:

Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13, Fair Value Measurement, in the Conceptual Framework? If not, why not?

PSAB Response

While PSAB does not anticipate any changes in Canada with regards to using fair value as a measurement basis for assets and liabilities, PSAB agrees with the proposed and continued inclusion of fair value as a measurement basis for assets and liabilities that is consistent with that of the International Accounting Standards Board (IASB). This allows for one global definition of fair value that is applicable to both the private and public sector, as demonstrated in IPSASB's financial instruments project. PSAB is of the view that having a different definition of fair value would create confusion among users of financial statements.

Specific Matter for Comment 3:

Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework?

If not, why not?

The Exposure Draft includes an Alternative View on current operational value.

PSAB Response

While PSAB agrees with the inclusion of current operational value as a measurement basis for assets in the Conceptual Framework, PSAB agrees with the Alternative View put forth by Mr. Todd Beardsworth on this topic.

PSAB agrees that the current proposed definition of Current Operational Value is unclear, particularly around the phrase "value of an asset" and agrees that the lack of clarity risks not achieving the qualitative characteristics of financial reporting. As outlined in PSAB's response to ED 77, one possible way to define "value of an asset" is in terms of the productive capacity or service potential an entity is trying to maintain. PSAB agrees that this is done through the Alternative View put forth by Mr. Beardsworth. Defining "value of an asset" in terms of productive capacity or service potential means allowing for ongoing improvements in technology, as opposed to using current cost to replace obsolete assets. We believe that defining the value of an asset in terms of its "existing productive capacity or service potential" to the entity is more forward-thinking than the current operational value proposals that take the approach of defining value in terms of the "existing assets" of the entity. As it stands, the current operational value approach looks at the amount an entity would incur to acquire its *existing* assets and continue to achieve its present service delivery objectives.

Specific Matter for Comment 4:

It is proposed to substitute a general description of value in use (VIU) in both cash-generating and non-cash-generating contexts, for the previous broader discussion of VIU. This is because the applicability of VIU is limited to impairments. Do you agree with the proposed change?

If not, why? How would you approach VIU instead and why?

PSAB Response

PSAB agrees with the proposed changes to the value-in-use discussion.

Specific Matter for Comment 5:

Noting that ED 77, *Measurement*, proposes the use of the cost approach and the market approach as measurement techniques, do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework:

- Market Value – for assets and liabilities; and
- Replacement cost – for assets?

If not, which would you retain and why?

PSAB Response

PSAB agrees with the proposed deletion of the market value measurement bases from the Conceptual Framework for both assets and liabilities. Fair value (for assets and liabilities), current operational value (for assets), and current fulfillment value (for liabilities) have been kept as measurement bases in the Conceptual Framework. Including market value, which is another current value measurement basis, may be confusing for stakeholders as it may not be clear what the difference is between all the current value measurement bases. PSAB agrees with the rationale provided in paragraph BC7.31 and BC7.32. Given this explanation, including market value as a potential current value measurement basis seems redundant and unnecessary.

PSAB also agrees with the proposed deletion of replacement cost for assets. With the addition of current operational value as a current value measurement basis, replacement cost may be redundant and no longer necessary to include.

Specific Matter for Comment 6:

The IPSASB considers that the retention of certain measurement bases that were in the 2014 Conceptual Framework is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework?

- Net selling price – for assets
- Cost of release – for liabilities
- Assumption price – for liabilities

If not, which would you retain and why?

PSAB Response

PSAB agrees with the proposed deletion of the net selling price for assets. This is consistent with PSAB's agreement with the IPSASB proposal in ED 79 to not use net selling price as an alternative measure to fair value less costs to sell. PSAB agrees with the IPSASB reasoning provided in BC7.35 and BC7.36, which outlines that in situations where there is not an orderly

market and the disposal is estimated to be below fair market value, the extent of losses likely to be made on the sale should be disclosed.

PSAB also agrees with the proposed deletion of assumption price. While it was included in the 2014 Conceptual Framework, PSAB agrees that the number of occasions in which public sector entities would accept a monetary amount for assuming a liability are limited. As such, PSAB agrees with IPSASB that there does not appear to be a strong case for retention of assumption price for subsequent measurement.

PSAB also agrees with the proposed deletion of cost of release. There are likely insufficient examples of circumstances where cost of release is appropriate to justify its retention in the Conceptual Framework.

Specific Matter for Comment 7:

Are there any other issues relating to Chapter 7: Measurement of Asset and Liabilities in Financial Statements of the Conceptual Framework that you would like to highlight?

PSAB Response

PSAB does not have any other major issues relating to Chapter 7: Measurement of Assets and Liabilities in Financial Statements of the Conceptual Framework. However, below are some items PSAB thought to raise:

Clarification Suggestions:

- **Paragraph 7.5**

- Paragraph 7.5 notes that “on initial measurement an item is measured at its transaction price, unless the transaction price does not faithfully present relevant information about the entity”. However, no further guidance is provided as to what measurement basis to use when the transaction price does not faithfully present relevant information about the entity. We recommend that this guidance be provided as there will be situations in which there is no transaction price. For your consideration, in its proposed conceptual framework, PSAB recognizes that initial (and subsequent) measurement may require estimation as the transaction price may not always be available. This additional guidance could be provided in IPSASB’s conceptual framework.
- The definition of “transaction price” also seems to be narrowly focused as it considers only the “price paid to acquire an asset”. Assets could also be developed or built. One could argue that the term “acquire” includes “building or developing” an asset. If that is the case, it may be helpful to include this clarification in the Basis for Conclusions. We suggest this clarification be added to footnote 1 of paragraph 7.5 and in the ED 77 definition. We provide further comments on transaction price in our response to ED 77.
- Moreover, the IPSAB defines transaction price as “the price paid to acquire an asset or received to assume a liability”. Historical cost for an asset is defined as “the

consideration given to acquire or develop an asset, which is the cash or cash equivalents, or the value of other consideration given up, at the time of its acquisition or development.” Historical cost for a liability is defined as “the consideration received to assume a liability, which is the cash or cash equivalents, or the value of other consideration received, at the time the liability is incurred.” The definitions of historical cost seem to be similar to the definition of transaction price. Having different terms for similar definitions may create confusion. Clarification on this can be added through the following addition:

At the transaction date, the transaction price may be representative of an item’s historical cost or current value as these measurement bases may result in identical values at initial measurement.

- **Paragraph 7.8**

- Paragraph 7.8 notes an “obligation becomes onerous”. Would the IPSASB be able to provide further insight as to when an obligation becomes onerous or what it means for an obligation to become onerous? Or if there is detail about this concept in other IPSAS, perhaps a cross-reference could be made to such guidance?

- **Paragraph 7.30**

- Is this paragraph intended to indicate that assets that form part of an entity’s financial capacity would not/never be measured at historical cost? If so, perhaps a clear statement to this effect would be appropriate. At least, clarity around the text in paragraph 7.30 about the use of historical cost for assets classified as part of financial capacity and any links to the proposals in ED 79 would be helpful.
- Also, some indication as to whether non-financial assets held for sale would be presented as part of financial or operational capacity seems important. Paragraph BC 9 of ED 79 appears to indicate a transition for non-financial assets identified as held for sale from operational to financial capacity. But perhaps the standard should state it? Some discussion of this conceptually would also be helpful. Further, perhaps link paragraph 7.30 to the text in ED 79 indicating that when assets held for sale are included in financial capacity but measured at their carrying amount, the fair value of such assets is to be disclosed when it is materially different.

- **Paragraphs 7.35, 7.37 and 7.51**

The relationship between paragraphs 7.35, 7.37 and 7.51 needs to be clarified.

- Paragraph 7.35 states:

Where an asset is used for service provision and also generates economic benefits, an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity and selects the fair value measurement basis or the current operational value measurement basis.

Paragraph 7.37 states:

Fair value is appropriate where the asset is being held primarily for its ability to generate economic benefits or with a view to sale.

And paragraph 7.51 states:

Current operational value measures the value of an asset, or assets, in supporting the achievement of an entity's service delivery objectives.

- We wonder if the IPSASB's intent with respect to paragraph 7.35 is as follows:

Where an asset is used for service provision and also generates economic benefits, an entity that is using the current value model makes a judgment whether an asset is primarily held for operational capacity or financial capacity. If an asset is held primarily for financial capacity, the entity would ~~and~~ selects the fair value measurement basis. If an asset is held primarily for operational capacity, the entity would select ~~or~~ the current operational value measurement basis.

- **Paragraph BC7.57**

- The IPSASB defines cost of fulfillment as "The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner." In paragraph BC 7.57, the IPSASB recognizes that there are certain situations where liabilities are not fulfilled in the least costly manner and notes that disclosure of this is important for accountability purposes. However, no guidance is provided in the draft chapter as to what measurement basis to use in such circumstances. That is, would the reporting entity continue to use cost of fulfillment but disclose that it is not possible to settle the liability in the least costly manner? Or would another measurement basis be more appropriate? It may be helpful to provide such guidance. If this detail is too granular for the conceptual framework, then perhaps the Measurement standard proposed in ED 77 may be a better place to provide such guidance.

Editorial Suggestions:

- **Paragraph 7.15.** Consider adding "of assets" at the end of the sentence as follows:

Value in use is discussed in paragraphs 7.57-7.62. It is not included in the above list of measurement bases because its use is limited to impairment of assets.

- **Paragraph 7.16** includes an extra "s" after the colon.

The following measurement bases for liabilities are identified and discussed: s

- PSAB also has a structural suggestion for this paragraph. Unless there is a reason to list fair value last in paragraph 7.16, consider listing fair value second as done in paragraph 7.15. This would leave the public sector specific measurement bases last in each paragraph.

- **Paragraph 7.27** Consider changing “distinct to the” to “distinct from”.

Under the historical cost measurement basis, the amount of an asset may be reduced by recognizing impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset has diminished due to changes in economic or other conditions, as distinct ~~to the~~ from consumption of an asset. This involves an assessment of the recoverable amount of an asset. Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements or other events (excluding price increases for unimproved assets), such as the accrual of interest on a financial asset. Depreciation, amortization, and impairment are also relevant to current value measurement bases (see paragraph 7.34).

- **Paragraph 7.29** Consider if more detail is required to address the scenario in the last sentence of paragraph 7.29 in which an asset is acquired through a non-exchange transaction and thus has no transaction price to reflect the assets contribution to operational capacity. See also our response to ED 77 for more information on this comment.
- **Paragraph 7.56** Consider changing “estimation” to “measurement” in front of “techniques” to use internally consistent terminology.

The extent to which current operational value measures meets the qualitative characteristics of timeliness, understandability and verifiability depends on the nature of the asset and the ~~estimation~~ measurement techniques used.

- **Paragraph 7.74** Consider including a paragraph number for the paragraph underneath the fair value definition.
- **Paragraph BC7.14** has an extra period between “models” and “and”.

Consequently, the IPSASB identified the historical cost model as one of the two models and retained historical cost as a measurement basis for both assets and liabilities.

- **Paragraph BC7.39** The reference to “value in use” in the second sentence should be “value in use”.

The IPSASB acknowledged the importance of value in use in assessments of impairment gains or losses. The IPSASB also noted that value ~~is~~ in use requires complex and subjective projections of cash flows generated by an asset or of the service potential provided by an asset. Complexity increases where assets generate cash flows in combination with other assets

- **Paragraph BC7.60** discusses market value as a measurement basis for Liabilities not included in the updated Conceptual Framework. The first sentence should reference current fulfillment value and not current operational value as this is a discussion of liabilities and not assets.

In light of the inclusion of fair value, the IPSASB concluded that the retention of market value was unnecessary, as it would overlap fair value and ~~current operational value~~ cost of fulfillment and its inclusion would be confusing.

APPENDIX A – CANADIAN STAKEHOLDER FEEDBACK

In addition to developing our own response, PSAB spoke with some Canadian stakeholders to understand their feedback on the proposals. Below is a brief summary of the feedback we heard.

Please note that this is a summary of the responses and feedback provided by Canadian stakeholders who chose to share their feedback with PSAB, and may not reflect the views of all Canadian stakeholders.

- Some stakeholders felt it would be beneficial if the three-tier hierarchy diagram identified the key characteristics that support each measurement basis, as this would help stakeholders understand how the hierarchy would be applied in practice, and help stakeholders determine which model and basis to use. (SMC 1)
- Some stakeholders also agreed with the proposed inclusion of fair value as a measurement basis for assets and liabilities, and were supportive of using the same definition as IFRS 13, *Fair Value Measurement*. They felt that maintaining a different definition would result in less understandability. (SMC 2)
- While PSAB agreed with the Alternative View of current operational value, some stakeholders felt that current operational value was not necessary. They felt that existing concepts contained in IFRS 13, as it relates to determining fair value for specialized or other non-financial assets, could be supplemented with additional guidance on how to apply IFRS 13 concepts to any non-financial asset that is held primarily for its operational capacity. They felt that this approach would be less complex and result in greater comparability between similar entities, as it would reduce the number of measurement bases available for comparable entities. Another stakeholder noted that they believed it would be difficult to calculate current operational value consistently over time, between line items and between entities. (SMC 3)
- Some stakeholders did not agree with the proposal to substitute a general description of value in use (VIU) in both cash-generating and non-cash generating contexts, for the previous broader discussions of VIU. They noted that if ISPASB kept current operational value as a measurement basis, then the distinction between value in use and current operational value should be clarified. (SMC 4)
- Some stakeholders agree with the proposed deletion of market value and replacement cost measurement bases. However, they noted it would be important to include guidance on replacement cost since it will still be used to value assets under both current value measurement bases when using the cost approach as a measurement technique. (SMC 5)
- Some stakeholders agreed with the removal of the net selling price, cost of release and assumption price measurement basis. (SMC 6)

- Stakeholders also provided some other suggestions (SMC 7):
 - Some stakeholders felt that they have had challenges in the past applying the concept of “market” to fair value measurements in the public sector context. Given that ED 77 allows the use of the market approach as a measurement technique for both fair value and current operational value measurement bases, some stakeholders felt market needs to be defined in these contexts.
 - Some stakeholders also mentioned that additional guidance should be provided on how legislative restrictions on assets and/or liabilities impact fair value measurements.