12 March 2013

Ms Stephanie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
Canada

Submitted to www.ifac.org

Dear Stephanie


As academics at the School of Accounting and Commercial Law in Victoria University of Wellington, we are pleased to make a submission on the above-titled Exposure Draft.

We are encouraged at the progress that the International Public Sector Accounting Standards Board (IPSASB) is making towards a full conceptual framework to underpin the standards issued by the Board. As you will note from the below comments, however, we believe that the IPSASB should agree a measurement objective in order to inform standard-setters’ and preparers’ decisions amongst different measurement bases. Following this decision, it is necessary in our view for the Board to re-issue this exposure draft to clarify and communicate their thinking around measurement issues.

We note that the International Accounting Standards Board (IASB) has also re-started its Conceptual Framework project and encourage the IPSASB to reconsider its Exposure Draft in the light of the IASB project. We think the definitions of words used in describing measurement bases and approaches should be aligned as far as possible with the IASB, or alternative terms utilised so as to avoid confusion.

Yours sincerely,

[Signature]
Professor Tony van Zijl
Professor Kevin Simpkins
Dr Rodney Dormer
Dr Carolyn Cordery
School of Accounting and Commercial Law
Victoria University of Wellington

CC: New Zealand Accounting Standards Board
Specific Matter for Comment 1: Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

1. We agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting. This should be formalised in the form of a measurement objective. We regard the measurement objective stated at AV7 in the statement of Alternative View of Mr Ken Warren as an appropriate form for the measurement objective. ("To select those measurement attributes that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes."")

2. We further note that para 4.1. could be viewed as concurring with our suggestion above. That is, "The selection of a measurement basis is primarily taken by evaluating the extent to which it contributes to the objectives of financial reporting and meets the QCs". By utilising a measurement objective, standard-setters and preparers’ would be able to rationalise and align different measurement bases and approaches so that they are as similar as possible internationally, allowing for public sector differences.

3. If a measurement objective was stated in the early paragraphs of the ED, the balance of the ED would be able to state the different options to support the measurement objective. Therefore the material currently in section 3 would become application guidance rather than, as it is currently, a listing of different options without guidance of when to use each option.

4. We note furthermore that without a measurement objective, there is a lack of coherence in overall standard-setting in that the messages IPSASB intends to be conveyed to users by key financial statement aggregates such as surplus or deficit are not supported by the measurement approaches taken. Selecting a measurement objective will of course influence the reported amount of such aggregates. Furthermore in future circumstances when there are no relevant standards, preparers and others such as auditors will have no conceptual basis for making measurement judgements and decisions.

Specific Matter for Comment 2: Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

1. Yes we agree with the principles of different measurement approaches, but we believe that the term ‘fair value’ should be included as a current value measurement basis in place of market value. We regard the attempt to distinguish between market value in active and inactive markets as an attempt to have market value regarded as being synonymous with fair value.

2. It would be helpful to rename ‘replacement cost’ as 'optimised depreciated replacement cost'. This would explicitly recognise that the cost refers to replacement of the service potential rather than the actual asset. Paragraphs 3.20 and 3.21 explicitly recognise this need to value the optimised depreciated replacement cost.

3. While in the 'normal case' the diagram at para. 4.9. is appropriate, specific cases can be defined where the net selling price (net realisable value) is greater than replacement cost and
value in use. If net selling price exceeds optimised depreciated replacement cost it would in normal circumstances indicate that there is a redevelopment or redeployment opportunity associated with the asset. In that case there is an argument in the for-profit sector that its deprival value should be measured as net selling price (whereas application of the rule stated in Diagram 1, paragraph 4.1 would lead to measurement at replacement cost). This argument is developed fully in van Zijl and Whittington (2006). 1

4. Some not-for-profit public sector entities which have assets with a net selling price (net realisable value) which is greater than replacement cost and value in use, may not be able to avail themselves of redeployment opportunities. This may occur when assets are held for cultural or environmental reasons, and the political environment actively discourages the entity from redeploying or redeveloping capacity. We encourage the IPSASB to further explore when these issues might arise, where conceptually these examples differ from the for-profit application, and to develop a framework which responds to such situations.

5. We recommend that consideration be given to changing to the definition of recoverable amount (in paragraph 4.11) adopted in IAS 36 Impairment of Assets, that is the higher of fair value less costs of disposal and value in use rather than the higher of net selling price and value in use.

Specific Matter for Comment 3: Do you agree with the approaches proposed in Section 4 for application of:
(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

1. We agree with the thrust of the proposed definition of fair value but would recommend that consideration be given to changing to the definition adopted in IFRS 13 Fair Value Measurement unless there are specific public sector reasons for not doing so.

2. Given the increasing use of fair value in financial reporting, the concept requires considerably expanded discussion from that provided in Section 4. The starting point should be IFRS 13 (FAS 52) with particular comment on issues specific to the public sector environment.

3. The fair value of operational assets held by public sector entities would normally be estimated by replacement cost and therefore there might be little practical difference between use of fair value and deprival value. However, application of deprival value, reinterpreted as in van Zijl and Whittington (2006), might usefully highlight the existence of redevelopment or redeployment opportunities associated with an operational asset (see our answer to specific matter for comment 2).

1 This might occur if an entity holds land and buildings in an attractive location which is not necessary for its own purposes. The replacement cost will reflect the lower optimal replacement cost for its present owner's use, but the net selling price will reflect the higher value realisable in an alternative use and reflected in the market price. Alternatively, in the case of plant and machinery, as well as property, the entity may own excess capacity. In such a case also, replacement cost will be based on necessary capacity, whereas net selling price will be based upon the actual capacity owned which might attract a higher value than the necessary capacity — this is not excess capacity where the cost cannot be recouped, but where the market price is greater than the value in use.
Specific Matter for Comment 4:
Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

1. In our view fair value should be included as a measurement basis for liabilities and the Framework should draw on the considerable development of fair value for liabilities as articulated in IFRS 13 with adaptations for public sector matters where necessary.

2. The appeal of the concept of relief value underlying the discussion in Section 5 appears to be driven more by a quest for symmetry with deprival value (as in the conventional notion) than by consideration of the objectives for financial reporting. If this were aligned to a measurement objective, we are not convinced of any need for a measurement basis for liabilities other than historical cost and fair value.

References: