

14 October 2019

Ian Carruthers
The Chair
International Public Sector Accounting Standards Board
529 5th Avenue
New York 10017

Submission via IPSASB website

Dear Ian

Consultation Paper: Measurement

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) and CPA Australia thank you for the opportunity to comment on the IPSASB's Consultation Paper: Measurement. Our responses to the specific matters for comment raised in the Consultation Paper follow in the **Appendix** to this letter.

Some of the outcomes from this project could be beneficial for both public sector and private sector not-for-profit reporting. For instance, the concept of a market participant for many public sector assets can be challenging, and attempting to arrive at hypothetical market participants when there are none is an issue. Some of our constituents believe that moving to an entry-based approach rather than an exit-based approach would be helpful in the public sector, but this would result in a divergence from IFRS 13 *Fair Value Measurement*. In Australia, which adopts IFRS 13 (through AASB 13 *Fair Value Measurement*) a need for further guidance on applying replacement cost has arisen, and the Australian Accounting Standards Board (AASB) is conducting a project to develop further guidance to assist with applying the fair value requirements in AASB 13 (IFRS 13) in the public sector.

Whilst we believe there are some benefits that could arise from this project as articulated above, based on the Consultation Paper alone, it is unclear what the problem is that the IPSASB is trying to solve. We are not convinced that the proposals set out a sufficiently robust case for why a general measurement standard is needed.

We note that the Illustrative Exposure Draft Appendices A to D include as application guidance, extracted material from International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). In many cases such material relates to specific

transactions under relevant standards which may not lend themselves to generic application to all scenarios under a particular measurement basis.

In our view, concepts relating to measurement should be included in the Conceptual Framework whilst the requirements and guidance in relation to measurement should be included in IPSAS. We are concerned that these proposals seek to establish within one proposed new IPSAS on measurement both concepts that should be included in the Conceptual Framework, and requirements and guidance that should be included in IPSAS. Therefore, we suggest the IPSASB considers separating aspects of this project into a review of the Conceptual Framework (which could guide the development of a measurement standard, if one is needed), improvements to applicable standards addressing specific measurement issues in the public sector, and the aggregation of measurement guidance, if necessary.

Regarding the guidance proposed, we have not identified any compelling need for guidance on historical cost. If use of fair value is required, then guidance aligned with IFRS 13 would be well received (please note our comments in the second paragraph above). We are uncomfortable with the proposal to switch from *cost of fulfilment* to *fulfilment value*, as it is more than just a change in terminology (see our response to Preliminary View 5 in the attached **Appendix**). There needs to be clarification around replacement cost as a measurement basis, and how this differs from the use of current replacement cost (the cost approach) in estimating fair value. We are not persuaded by the arguments presented to eliminate the option to capitalise certain borrowing costs.

Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact [Gerrie Burger](#), Senior Policy Advocate at CA ANZ, and [Ram Subramanian](#), Policy Adviser, Reporting at CPA Australia.



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Appendix

Preliminary view 1

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.

We are not convinced that there is a compelling need for guidance on historical cost measurement, but we agree that there is a need for more guidance on replacement cost and fair value measurement in the public sector.

We note that fair value has not been identified in the Conceptual Framework as a measurement basis, yet it is considered as a measurement basis in this consultation. Therefore, this proposal appears to propose a conceptual change in considering fair value as a measurement basis, which would be more appropriately addressed through a review of the Conceptual Framework.

The current guidance provided by IFRS 13 insufficiently addresses issues the public sector is facing. If the IPSASB intends to use the guidance in IFRS 13 for non-financial assets, the Board will need to provide additional specific guidance for public sector entities to apply the principles. As stated in the cover letter, the Australian Accounting Standards Board (AASB) is currently working on a project to address issues raised by public sector constituents regarding the application of [AASB 13 Fair Value Measurement by public sector entities](#).

Preliminary view 2

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.

As stated in the cover letter, we do not believe the Consultation Paper makes a clear case for why one measurement standard is necessary. Although one consolidated standard on measurement might appear appropriate on initial consideration, we have the following concerns with the proposed approach:

- It appears that the Illustrative ED is proposing changes to principles contained in the Conceptual Framework. As mentioned in our response to the IPSASB's preliminary view 1 above, we believe this would require a review of the Conceptual Framework. Furthermore, the concepts in the Conceptual Framework form the basis upon which IPSAS are developed and therefore it is inappropriate to use such concepts directly, as proposed, within the application guidance included as part of the illustrative ED.

- As stated in the cover letter, material extracted from IFRS and IPSAS and included in the proposed application guidance relates to specific transactions under relevant standards which may not lend themselves to generic application to all scenarios under a particular measurement basis. Content taken from other IPSAS in the Illustrative ED often occurs only once in relevant IPSAS, so it appears that such guidance is potentially transaction specific and does not lend itself to being generic guidance that applies to all scenarios in relation to each measurement basis. For example, paragraph C12 in the Appendix C to the Illustrative ED refers to transport costs incurred in relation to consideration for a purchased asset. Whilst transport costs may be relevant to the purchase of a non-financial asset, it is unlikely to be relevant to the acquisition of a financial instrument.

We suggest the IPSASB revisit the [project rationale and objectives](#) and target each objective systematically.

Preliminary view 3

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.

We are unaware of any significant problems in the application of historical cost in the public sector and we are unconvinced that this is an area where guidance is needed. Accordingly, we are not in a position to comment on whether Appendix C is complete. However, we have some observations on its appropriateness in the context of these proposals. It appears that the appendices contain:

- Content taken from the Conceptual Frameworks (IPSASB and IASB);
- Content taken from other IPSAS; and
- Newly added content.

Due to its very nature, the *content taken from the Conceptual Frameworks* is not helpful as application guidance. It repeats extant content without adding practical guidance.

The *content taken from other IPSAS* is also generally not helpful when taken from the 'body' of extant IPSAS which contain principles and requirements rather than 'application guidance.' As mentioned in our response to the IPSASB's preliminary view 2 above, various aspects of guidance often occur only once throughout IPSAS. Therefore, we question whether it is appropriate to consider such guidance generic.

Arguably, the *newly added content* is not helpful as application guidance either – as it appears to be conceptual, and we have the following reservations:

- We are unsure what the gaps in IPSAS are that the IPSASB is attempting to address. Specific concerns in the public sector have not been highlighted suggesting the need for solutions proposed in the Illustrative ED.
- there are potential conflicts with the principles in the Conceptual Framework.
- It potentially adds unnecessary clutter which may obscure existing guidance.

Preliminary view 4

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.

We agree that, as far as the term “fair value” is intended to mean the same as it does in IFRS 13, the guidance should be aligned taking into account considerations specific to the public sector. If the IPSASB decides to align the fair value guidance with IFRS 13, there is a need to include additional guidance on how to apply these principles in the public sector. This is particularly relevant given that the Australian public sector has experienced a number of issues applying the concepts in IFRS 13 through the local equivalent standard AASB 13. We do not have any comment on whether Appendix A is complete. However, we have similar concerns on its appropriateness as set out in our response to the IPSASB’s preliminary view 3 above.

We encourage the IPSASB to consider the AASB’s [fair value measurement in the public sector project](#) which may inform the IPSASB’s deliberations as the AASB is addressing specific issues raised by public sector constituents.

Preliminary view 5

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.

We do not have any comment on whether Appendix B is complete. However, we have similar concerns on its appropriateness as set out in our response to the IPSASB’s preliminary view 3 above.

Most notably, we do not agree with the proposal to switch from *cost of fulfilment* to *fulfilment value*, as it is more than just a change in terminology. For example, the Illustrative ED proposes that *fulfilment value* should include a risk premium (also referred to as a risk adjustment). Although the IPSASB Conceptual Framework is silent on this matter, the Basis for Conclusions

on IPSAS 42, *Social Benefits* states that *cost of fulfilment* does not include a risk adjustment. The appropriateness of including a risk margin for the liabilities of public sector entities has been the subject of much debate in New Zealand. This suggests that the new term *fulfilment value* being proposed is different to the extant term *cost of fulfilment*.

Preliminary view 6

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.

From the Consultation Paper and the Illustrative ED it is still unclear as to how replacement cost is measured. Therefore, regarding Appendix D, we have concerns similar to our response to the IPSASB's preliminary view 3.

Australia and New Zealand look to IPSAS when developing accounting standards for both the public sector and private not-for-profit sector. Often there are no market participants in these sectors, and therefore trying to come up with a hypothetical market participant when there is not one causes issues. We believe that there is insufficient guidance currently for replacement cost, as there are further issues over and above the hypothetical market participant problem. Some of the issues the public sector is currently facing in applying replacement cost include:

- determining the unit of account when valuing assets (e.g. to what extent should land and non-land assets be disaggregated for the purpose of selecting the appropriate valuation stream),
- considering the impact of legal and physical restrictions on current replacement cost,
- deciding which costs to include in the replacement cost (especially in situations where part of an asset rather than the entire asset is replaced),
- determining economic obsolescence and temporary overcapacity, and
- when using current replacement cost, adjusting for differences in utility between existing assets and the modern equivalent.

Specific issues such as those listed above have not been addressed in the Consultation Paper, and in this regard, we encourage the IPSASB to reach out to the AASB and the New Zealand Accounting Standards Board (NZASB).

Preliminary view 7

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.

We are not persuaded by the arguments presented to eliminate the option to capitalise certain borrowing costs. Whilst we understand it is common practice to expense borrowing costs, we support retaining the accounting policy choice to capitalise or expense. We believe it is possible to directly attribute borrowing costs to specific projects, particularly in the case of large infrastructure assets. Simply removing the option to capitalise is not a pragmatic solution to actually addressing the difficulties some entities encounter in practice. Also, it does not address the issue of what costs should be included in assets measured at fair value using the cost approach, or what costs should be included in a replacement cost measurement.

Preliminary view 8

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.

We are not aware of any issues with the extant definition. However, if these changes are to be proposed in a later exposure draft, we suggest providing guidance and examples to provide further clarity to the terms “directly attributable” and “would not have been incurred.”

Preliminary view 9

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.

If there were to be a measurement standard with generic measurement guidance, then it would not be unusual to have proposed guidance on transaction costs connected with the measurement bases it covers.

Preliminary view 10

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.

No comment.

Preliminary view 11

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.

No comment.

Specific matter for comment 1

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.

At this stage of the project, we are not in a position to comment on whether the definitions are exhaustive. For example, the term *cash-generating unit* is discussed in the application guidance, but this is a concept relating to impairment which is scoped out of this project. We would be in a better position to comment if we had sight of a completed exposure draft with consequential amendments, were this the approach chosen by the IPSASB. However, as per our comments raised herein, we question whether the direction proposed by the IPSASB in this Consultation Paper is appropriate.

Furthermore, some of the terms are confusing. For example, there appears to be an overlap in definitions between:

- Fair value and market value (the “market value for assets” definition in the ED equates to the definition of fair value in IPSAS Standards, which might create confusion);

- Orderly transaction and arm's length transaction;
- Historical cost and amortised cost; and
- Market value of a liability and amortised cost of a liability (the market value of a liability definition does not take into account traded/exchanged liabilities).

Specific matter for comment 2

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)?

No comment.

Specific matter for comment 3

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; 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.

While we acknowledge the intention of Diagrams 4.1 and 4.2 to visualise the measurement of assets and liabilities in the form of an illustrative flow chart, we are concerned about the understandability of the flow charts given that certain "pathways" visualised through arrows do not clearly point in a particular direction (see copy of Diagram 4.1 below; red and green boxes).

With regards to the red box, we are concerned about the "intersection" of illustrated arrows. Paragraph 4.15 (b) (p. 40), states that "[w]hen replacement cost does not faithfully represent the economic substance of the transaction, the current value of the asset is derived using another measurement basis." However, the current illustration of the arrows does not clarify that the consideration of alternative measurement bases is a consequence of replacement cost not

being considered a suitable measurement basis. In fact, the presentation of the arrows suggests that the step of considering alternative measurement bases has been skipped. The green box highlights our concern of illustrating an ongoing “decision-making loop”. Given that the arrow in the green box is not labelled, it may lead to confusion.

