



**ED 175**

**Responses due by 13 September 2019**

**ACCOUNTING STANDARDS BOARD**

**INVITATION TO COMMENT ON THE CONSULTATION  
PAPER OF THE INTERNATIONAL PUBLIC  
SECTOR ACCOUNTING STANDARDS BOARD  
ON  
MEASUREMENT  
(ED 175)**



ED 175

## Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the Consultation Paper of the International Public Sector Accounting Standard Board (IPSASB) on *Measurement* (ED 175). Comment received on this Exposure Draft will be used in formulating a response to the IPSASB.

Comment should be submitted in writing so as to be received by **13 September 2019**. E-mail responses are preferred. Unless respondents to the Exposure Draft specifically request confidentiality, the comment is a matter of public record once the pronouncement has been issued. Comment should be addressed to:

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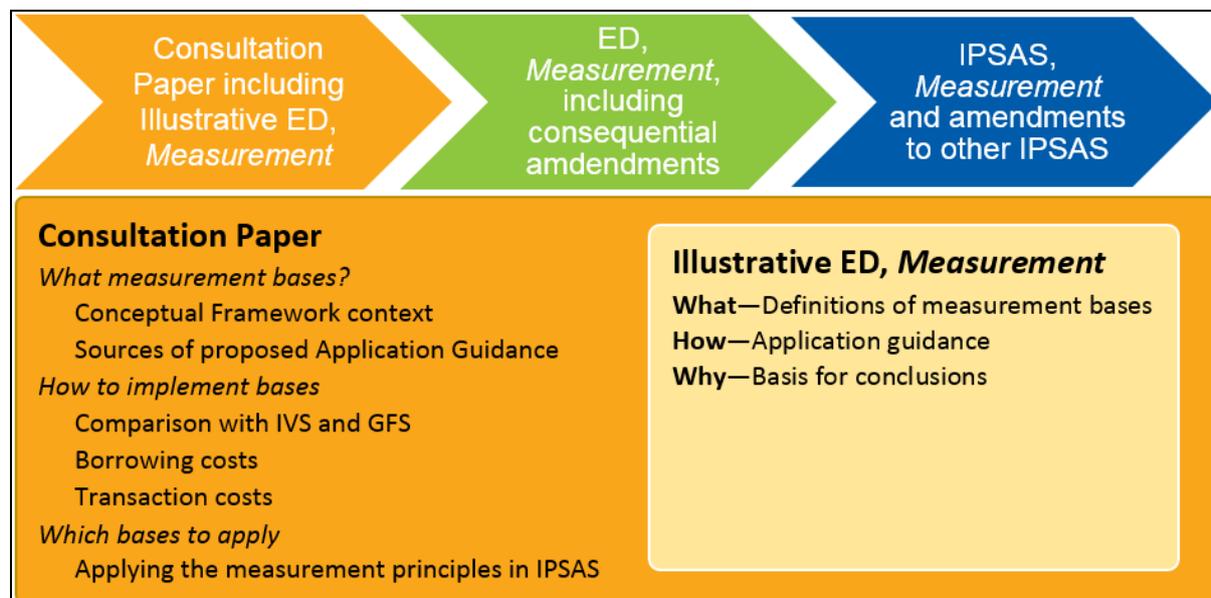
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## Background and objective of this Exposure Draft

Following the completion of its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) in 2014, the International Public Sector Accounting Standards Board (IPSASB) recognised the need to address the measurement requirements in IPSAS to better align them with the measurement concepts in the Conceptual Framework.

The objective of the measurement project is to establish a single comprehensive IPSAS which identifies and defines the measurements bases (e.g. historical cost, fair value etc.) used in IPSAS, and provides generic application guidance on how to derive those measurements bases. To achieve this, the IPSASB intends to follow this process below.

**Diagram 1: The process from consultation to approved IPSAS, *Measurement***



Source: IPSASB

The IPSASB is in the Consultation Paper Phase and has published a Consultation Paper on *Measurement* on which it is seeking views. The Consultation Paper is structured such that it provides both a concepts-based discussion in the Consultation Paper and an addendum that includes an Illustrative Exposure Draft (ED) of what the future IPSAS on *Measurement* could look like on the basis of the IPSASB's preliminary views.

### *Development of the Consultation Paper and Illustrative ED*

The Conceptual Framework provides principles for eight measurement bases that can be applied to measure assets and liabilities in the public sector. The Consultation Paper identifies which measurement bases are widely applied in IPSAS, and which ones would require application guidance to be developed. The IPSASB reaches a preliminary view that four measurement bases would require application guidance - fair value, fulfilment value, historical cost and replacement cost. Consequently, the Illustrative ED illustrates what this

guidance would look like in the IPSAS on *Measurement*. The Illustrative ED provides the definitions, application guidance as well as the basis of the IPSASB's proposals for those measurement bases.

With the exception of fair value, the source of the guidance in the Illustrative ED is either from the Conceptual Framework or material that already existed in IPSAS. Where there was limited guidance available in IPSAS, new guidance was developed using the principles in the Conceptual Framework as a basis, while aligning with IFRS Standards where applicable, and taking into account guidance developed for the International Valuation Standards<sup>1</sup> (IVS) and Government Finance Statistics<sup>2</sup> (GFS).

In the case of fair value, fair value is widely applied in IPSAS however the IPSASB did not identify it as a measurement basis in the Conceptual Framework. Since the introduction of IFRS 13, *Fair Value* in 2011, the Consultation Paper considers whether it is appropriate for the IPSASB to formalise fair value, as defined in IFRS 13, in the public sector. The IPSASB reaches a view that, for consistency and comparability, fair value as defined in IFRS 13 is relevant to some assets and liabilities in the public sector when it is appropriate to measure those assets and liabilities using an exit-based current value.

Consequently, the IPSASB proposes to formalise fair value as a public sector measurement basis and align the public sector fair value guidance with the principles developed in IFRS 13. The IPSASB observed that such a proposal will present some challenges. In particular, existing IPSAS will need to be reviewed to determine whether references to fair value in those Standards need to be changed to another measurement bases if fair value is not appropriate. Furthermore, the Conceptual Framework refers to market value and not fair value, and there is a potential overlap in how the two concepts are defined. However, the IPSASB will consider these challenges and how to approach them in the next phase of the project.

The Consultation Paper discusses how the measurement principles in the Conceptual Framework should be interpreted at a standards level. A methodology is proposed that will assist the IPSASB when reviewing the requirements in existing IPSAS (in the next phase of the project) and developing measurement requirements for new IPSAS.

#### *Other issues considered in the Consultation Paper*

The Consultation Paper addresses other issues relating to measurement – accounting for transaction costs and borrowing costs.

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<sup>1</sup> The International Valuation Standards Council is an independent, not-for-profit, private sector standards organisation incorporated in the United States and with its operational headquarters in London, UK. IVSC develops international technical and ethical standards for valuations on which investors and others rely.

<sup>2</sup> The Government Finance Statistics Manual 2014 (GFSM 2014)—describes a specialised macroeconomic statistical framework—the government finance statistics (GFS) framework—designed to support fiscal analysis. The manual provides the economic and statistical reporting principles to be used in compiling the statistics; describes guidelines for presenting fiscal statistics within an analytic framework that includes appropriate balancing items; and is harmonised with other macroeconomic statistical guidelines.

For transaction costs, the challenge is that there is no general definition of transaction costs or a specific IPSAS that provides a conceptual basis for the inclusion or exclusion of transactions costs when measuring assets and liabilities. As a result, the Consultation Paper proposes a definition to ensure a consistent meaning for transaction costs across all IPSAS. The Consultation Paper also explores various options for the accounting of transaction costs and proposes that transaction costs should be accounted for on (a) the basis of the objective of the measurement basis selected to measure the asset or liability, and (b) whether the transaction costs are entry or exit based.

In the case of borrowing costs, the choice to expense or capitalise borrowing costs has been left to each entity to decide. Consequently, the accounting will vary depending on the entity's choice. The Consultation Paper explores which option would be most appropriate to apply in the public sector and proposes that all borrowing costs should be expensed to enhance comparability in the financial statements.

#### *Impact of the Exposure Draft in the South African environment*

In the next phase of the project, the IPSASB will consider the comments received on the Consultation Paper and Illustrative ED and develop an Exposure Draft for IPSAS, *Measurement*. The Exposure Draft will include the proposed consequential amendments to other IPSASs. The IPSASB is expected to finalise the project in the first half of 2021.

Since the Board aims to maintain convergence with IPSAS where these are relevant to the public sector and consistent with the ASB's mandate and strategic objectives, the Board would need to consider the impact of any decisions made by the IPSASB on the measurement of assets and liabilities for the local environment. In the Board's ED on *Identifying Projects to Prioritise on the ASB's Work Programme for 1 April 2020 to 31 March 2023* (ED 171) the project on Measurement was not identified as a potential project for that period due to the timing of the completion of the project by the IPSASB. The Board will however consider the project in the next work programme for 2024 to 2026.

### **Due process and timetable**

The due process followed by the Board in developing Standards of GRAP is for the Board to receive comment on the proposals set out in the Exposure Draft from preparers, users, auditors, standard setters and other parties with an interest in public sector financial reporting. Accordingly, all interested parties are invited to provide comment.

### **Invitation to comment**

Comment is invited by **13 September 2019** on this Exposure Draft. The comment period is earlier than the comment date of the international Exposure Draft to enable the Board to review and collate the comment received prior to submission to the IPSASB.

The Board requires that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and supplement this opinion with detailed comment, whether supportive or critical, on the changes proposed in the Exposure Draft.

## Invitation to comment on preliminary views and specific matters

The Preliminary Views and Specific Matters for Comment in this Exposure Draft are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.

### Preliminary views and specific matters relating to Chapter 2

#### **Preliminary View 1 - Chapter 2 (following paragraph 2.6)**

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.

#### **Preliminary View 2 - Chapter 2 (following paragraph 2.6)**

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.

#### **Preliminary View 3 - Chapter 2 (following paragraph 2.10)**

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.

#### **Preliminary View 4 - Chapter 2 (following paragraph 2.16)**

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.

**Preliminary View 5 - Chapter 2 (following paragraph 2.28)**

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.

**Preliminary View 6 - Chapter 2 (following paragraph 2.28)**

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.

**Specific Matter for Comment 1 - Chapter 2 (following paragraph 2.29)**

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.

Preliminary views and specific matters relating to Chapter 3

**Preliminary View 7 - Chapter 3 (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.

**Preliminary View 8 - Chapter 3 (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.

**Preliminary View 9 - Chapter 3 (following paragraph 3.42)**

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.

**Preliminary View 10 - Chapter 3 (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.

**Preliminary View 11 - Chapter 3 (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.

### **Specific Matter for Comment 2 - Chapter 3 (following paragraph 3.5)**

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)?

### Preliminary views and specific matters relating to Chapter 4

### **Specific Matter for Comment 3 - Chapter 4 (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.

### **Other matters**

As with any other Exposure Draft, comment on any other matter would be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs in your response.