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26 September 2019

Electronic submission: ipsasb.org

Dear John

COMMENTS ON THE CONSULTATION PAPER ON *MEASUREMENT*

We are pleased to provide comments on the Consultation Paper on *Measurement*. Our comments have been formulated after consultation with stakeholders and have been reviewed by the Board.

Our responses to you are outlined in two parts:

- Part A – Responses to preliminary views and specific matters for comment.
- Part B – Other comments.

Initial reactions

We support the IPSASB's project on measurement as the lack of clear, consistent guidance on measurement is often raised by our stakeholders as an issue in applying accrual based-Standards. Apart from our detailed comments in Parts A and B, we would have outlined strategic issues in the paragraphs that follow.

Approach to Consultation Paper

Given that the approach used in this project is new, we asked stakeholders for their views about the proposed approach.

There were mixed reactions to the approach. Some stakeholders supported the publication of both a Consultation Paper and an "illustrative" Exposure Draft as this helped to visualise at least one part of the project output. These stakeholders however indicated that they did not focus on reviewing the technical content of the illustrative Exposure Draft because it was marked as "illustrative". Other stakeholders indicated that they found it difficult to engage with the issues because the ideas were not well enough developed and were too conceptual.

Board Members: Mr V Ngobese (chair), Ms F Abba, Ms L Bodewig, Mr C Braxton, Mr K Hoosain,
Ms S Kubheka, Ms I Lubbe, Mr K Makwetu, Ms P Moalusi, Ms N Themba
Alternate: Ms M Sedikela
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

Illustrative Exposure Draft

Based on the observations from stakeholders on the approach and other feedback received, we suggest that a detailed technical review be undertaken of the illustrative Exposure Draft to refine the concepts and to ensure there are no inconsistencies between the Appendices.

It was also observed that the styles of writing vary from Appendix to Appendix, which may be a consequence of using different sources of information to develop the illustrative Exposure Draft. Stakeholders noted that the structure and style of writing, language etc. should be consistent with the existing suite of IPSAS.

Use of material from the Conceptual Framework

Material has been included from the Conceptual Frameworks of either the IPSASB or the IASB in the illustrative Exposure Draft. This material is often too “conceptual” to be of value in a potential IPSAS intended to explain the application of specific measurement bases. Specific examples are provided in Parts A and B of our comments.

Link with infrastructure assets and heritage

The IPSASB has two key projects on its work plan where issues are likely to arise related to the measurement of assets and liabilities, i.e. heritage and infrastructure assets. Most of the accounting issues that arise in these topics relate to measurement and it is therefore critical that guidance is provided. The IPSASB should consider how it provides guidance on these areas based on some of the preliminary views expressed in this Consultation Paper, i.e. that the IPSAS on *Measurement* will only provide generic guidance and transaction specific guidance is located elsewhere.

Fair value, market value and replacement cost

We are concerned about how fair value, market value and replacement cost are going to be used to measure assets and liabilities.

Use of fair value

- At present, the IPSASB's *Conceptual Framework for General Purpose Financial Reports in the Public Sector* does not include 'fair value' as defined in IFRS 13 on *Fair Value Measurement* as a measurement basis.
- We agree that, in order to maintain alignment with International Financial Reporting Standards, the IPSASB needs to include 'fair value' in its literature. However, we question how it will be used and its interaction with other measurement bases such as 'market value' and 'replacement cost'.
- Fair value, as defined in IFRS 13 is an exit-based measure of assets and liabilities. It is therefore only likely to be relevant when measuring the financial capacity of assets.
- Given our limited support for the use of fair value in IPSAS, this would impact on the modification of IFRS Standards when they are developed as an IPSAS. This would particularly be the case where an IFRS Standard proposes using fair value to measure the 'operational capacity' of an asset. As a result, there may be some need for divergence from IFRS regarding the use of fair value.

Fair value and market value

- At present, the suite of IPSAS recognises assets acquired in non-exchange transactions at 'fair value'. The current definition of 'fair value' in IPSAS could be either an entry or an exit value, which makes it relevant to measuring assets (and liabilities) that are being acquired or sold.
- The current definition of 'fair value' in the suite of IPSAS is consistent with the definition of 'market value' in the IPSASB's Conceptual Framework. In deciding whether to retain 'market value' or replace it with 'fair value', the IPSASB would need to establish (a) whether or when entry values are required, and (b) whether market value or an alternative measurement basis should be used.

- We believe there is a need to use entry values for the initial recognition of assets received, or liabilities assumed, in non-exchange transactions. Other situations may also exist and the IPSASB should fully analyse when other situations may require the use of entry values. While using market value for the initial recognition of non-exchange transactions may be appropriate, we believe having both 'fair value' (as defined in IFRS 13) and 'market value' in the Conceptual Framework/suite of IPSASs is likely to be highly confusing for preparers and users. We would therefore support deleting 'market value'. As an alternative measurement basis where entry values are needed, it may be appropriate to use 'replacement cost' rather than 'fair value', particularly as the initial measurement for non-exchange transactions.

Replacement cost as a measurement basis and an approach to determine fair value

- At present, 'replacement cost' is identified as a measurement basis in the Conceptual Framework and the illustrative Exposure Draft. 'Replacement cost' is also the basis used when applying the 'cost approach' in determining fair value in IFRS 13.
- We do not believe that replacement cost can be used as a measurement basis and as a measurement approach means of calculating fair value.
- The 'cost approach' in IFRS 13 (which is measured using replacement cost) is most commonly used in measuring non-monetary assets such as infrastructure. These assets are likely to be held for their operational capacity rather than their financial capacity. In line with our proposal above, we are of the view that fair value should only be used to measure financial capacity. As a result, it may not be necessary to include the 'cost approach' in the fair value guidance. We suggest removing the 'cost approach' from fair value.

Change management and education

The potential change to having one IPSAS outlining measurement principles for a number of bases and the individual IPSAS outlining transaction specific Application Guidance represents a significant shift both in how preparers will use/interact with the IPSAS as well as apply the principles. The IPSASB should consider specific change management and education initiatives for the users of its Standards once the process has been completed.

Scope of project

We note that the proposal is to exclude any specific disclosures from the IPSAS on *Measurement*. As there are transversal disclosures that will be necessary irrespective of the measurement basis applied, we believe that there may be merit in including these disclosures in the IPSAS on *Measurement*. The disclosures in IFRS 13 on *Fair Value Measurement* could be used as a basis.

General

We continue to support the IPSASB's work in this area as providing clear guidance on the measurement of assets and liabilities will improve the quality of information available to users.

Should you have any queries regarding the comments outlined in our letter, please feel free to contact me.

Your sincerely



Jeanine Poggiolini, Technical Director

PART A – RESPONSES TO PRELIMINARY VIEWS AND SPECIFIC MATTERS FOR COMMENT

CHAPTER 2 – HOW HAS THE ILLUSTRATIVE ED BEEN DEVELOPED?

Preliminary View 1 - Chapter 2 (following paragraph 2.6)

The IPSASB's Preliminary View is that the fair value, fulfilment 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.

PV1.1 We support the inclusion of fulfilment value, historical cost and replacement cost.

- For historical cost, the inclusion of the guidance in an IPSAS on *Measurement* is an opportunity to align the principles across the IPSAS and to reduce repeating concepts in different Standards when they are the same.
- For replacement cost, there has been a lack of comprehensive guidance in IPSAS which has led to diversity in practice and significant disagreements between accountants, engineers, valuers and auditors. The guidance would address the diversity in practice.

PV1.2 Our concerns on the use of fair value are discussed in our response to Preliminary View 4.

PV1.3 It would be useful for the IPSASB to communicate how or if the other measurement bases will be considered.

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.

PV2.1 We support the view that generic guidance should be included in the IPSAS on *Measurement* and transaction specific guidance should be provided in the IPSAS dealing with a particular topic. We have specific comments on Appendix C and Appendix D on the distinction between generic and specific guidance.

PV2.2 When reviewing the illustrative Exposure Draft, the Board should ensure that consistent terminology is used in the IPSAS on *Measurement* and other IPSAS. At present, some terminology is different as well as the style of writing.

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.

PV3.1 In principle, we agree that the guidance on historical cost should be drawn from existing IPSAS.

PV3.2 We question the interaction between the guidance in the illustrative Exposure Draft and the existing IPSAS on *Intangible Assets*. Paragraph C18 specifically refers to intangible assets and

the treatment of development costs. We question if this is consistent with the idea that the IPSAS on *Measurement* would deal with generic principles and the specific treatment of transactions in the individual IPSAS.

PV3.3 We question the guidance in paragraphs C7 to C19. It seems to be written as a 'guidance manual' rather than clearly articulating principles for when costs are capitalised to the cost of an asset or not. In particular, the discussions on the capitalisation of costs based on how an asset is acquired seems to provide guidance rather than clear principles that could be applied to a range of scenarios. Only the text that clearly articulates a principle should be retained.

PV3.4 We question the need for amortised cost in the 'historical cost' chapter. While we appreciate that there is a view that amortised cost may depict a cost measure, it is not defined in the same way as 'historical cost' in the definitions section of the illustrative Exposure Draft and paragraph C1. The paragraphs – which are drawn from the IASB's Conceptual Framework – are too generic to be of any value in an IPSAS outlining the detailed application of the measurement bases.

PV3.5 Some stakeholders questioned whether amortised cost is always a historical measure. If amortised cost is calculated on a variable rate instrument where the rate resets to a market rate at specified intervals, the amortised cost may be closer to a 'current' measure.

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.

PV4.1 We support the approach taken to develop the guidance on fair value. We do however have concerns about the use of fair value.

PV4.2 *Fair value, market value and replacement cost*

We are concerned about how fair value, market value and replacement cost are going to be used to measure assets and liabilities.

Use of fair value

- At present, the IPSASB's *Conceptual Framework for General Purpose Financial Reports in the Public Sector* does not include 'fair value' as defined in IFRS 13 on *Fair Value Measurement* as a measurement basis.
- We agree that, in order to maintain alignment with International Financial Reporting Standards, the IPSASB needs to include 'fair value' in its literature. However, we question how it will be used and its interaction with other measurement bases such as 'market value' and 'replacement cost'.
- Fair value, as defined in IFRS 13 is an exit-based measure of assets and liabilities. It is therefore only likely to be relevant when measuring the financial capacity of assets.
- Given our limited support for the use of fair value in IPSAS, this would impact on the modification of IFRS Standards when they are developed as an IPSAS. This would particularly be the case where an IFRS Standard proposes using fair value to measure the 'operational capacity' of an asset. As a result, there may be some need for divergence from IFRS regarding the use of fair value.

Fair value and market value

- At present, the suite of IPSAS recognises assets acquired in non-exchange transactions at 'fair value'. The current definition of 'fair value' in IPSAS could be either an entry or an exit value, which makes it relevant to measuring assets (and liabilities) that are being acquired or sold.
- The current definition of 'fair value' in the suite of IPSAS is consistent with the definition of 'market value' in the IPSASB's Conceptual Framework. In deciding whether to retain 'market value' or replace it with 'fair value', the IPSASB would need to establish (a) whether or when entry values are required, and (b) whether market value or an alternative measurement basis should be used.
- We believe there is a need to use entry values for the initial recognition of assets received, or liabilities assumed, in non-exchange transactions. Other situations may also exist and the IPSASB should fully analyse when other situations may require the use of entry values. While using market value for the initial recognition of non-exchange transactions may be appropriate, we believe having both 'fair value' (as defined in IFRS 13) and 'market value' in the Conceptual Framework/suite of IPSASs is likely to be highly confusing for preparers and users. We would therefore support deleting 'market value'. As an alternative measurement basis where entry values are needed, it may be appropriate to use 'replacement cost' rather than 'fair value', particularly as the initial measurement for non-exchange transactions.

Replacement cost as a measurement basis and an approach to determine fair value

- At present, 'replacement cost' is identified as a measurement basis in the Conceptual Framework and the illustrative Exposure Draft. 'Replacement cost' is also the basis used when applying the 'cost approach' in determining fair value in IFRS 13.
- We do not believe that replacement cost can be used as a measurement basis and as a measurement approach means of calculating fair value.
- The 'cost approach' in IFRS 13 (which is measured using replacement cost) is most commonly used in measuring non-monetary assets such as infrastructure. These assets are likely to be held for their operational capacity rather than their financial capacity. In line with our proposal above, we are of the view that fair value should only be used to measure financial capacity. As a result, it may not be necessary to include the 'cost approach' in the fair value guidance. We suggest removing the 'cost approach' from fair value.

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.

PV5.1 In principle we agree with using the principles in the Conceptual Framework, we do however have concerns about paragraphs B10 and B11.

PV5.2 Paragraph B10 indicates that the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the obligation. It could be onerous to determine what the potential cost would be to settle the liability internally and seems impractical if an entity is not able to fulfil the obligation using internal capacity. The measurement of liabilities on this basis also does not appear to provide users of the financial statements with relevant information as the entity will record a liability at a lower amount when

it knows that it will not settle it in the manner on which the measurement is determined. While we agree that the least costly amount should be used, it should be constrained by how the entity plans to settle the liability.

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.

SMC1.1 We agree that the list of definitions is complete. We have specific comments on the definitions included in the illustrative Exposure Draft and how they are interpreted which are included in Part B.

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.

PV6.1 We broadly support the basis used to develop the replacement cost.

PV6.2 One of the methods used to determine fair value is the 'cost approach' which is based on the 'current replacement cost' of the asset. We have two concerns about this:

- (a) It is unclear whether the 'current replacement cost' in IFRS 13 is the same as the 'replacement cost' in Appendix D. While there are similarities in their definitions, different wording is used to describe the same concepts, and the treatment of disposal proceeds at the end of an asset's life is unclear.
- (b) If 'current replacement cost' and 'replacement cost' are the same and are calculated on the same basis, it is untenable to have the same measurement basis being used as a measurement basis in its own right (Appendix D) as well as a way of determining another (i.e. fair value in Appendix A).

PV6.3 We have the following comments on the text included in Appendix D:

- (a) The guidance in paragraphs D7 to D10 deals with the separation of assets into separate components to determine their useful lives. The separation of assets into components and identifying their useful lives is not unique to the replacement cost measurement basis. In accordance with the IPSAS on *Property, Plant and Equipment* (IPSAS 17), the components of assets and their useful lives should be determined irrespective of whether the historical cost or revaluation method is applied. We therefore suggest removing this section from the replacement cost chapter and it being retained in IPSAS 17.
- (b) Paragraph D8 makes reference to "...an entity should have regard to the materiality of the assets in relation to the statement of financial position and also think carefully about what is significant...". The difference between significance and materiality is an area that causes confusion among preparers. These two terms are used here generically and do not provide preparers with any assistance. Components of assets are considered in relation to the cost of an asset – not to the value of assets on the statement of financial position. Guidance should be provided about how significance should be assessed. Given that more explicit guidance is provided in IPSAS 17, we suggest that this discussion should be located in IPSAS 17 rather than in the IPSAS on *Measurement*.

(c) Paragraph D35 - The service units approach seems better suited (as drafted) for an impairment test. Consider whether this measurement technique is needed in this chapter.

CHAPTER 3 – HOW THE ILLUSTRATIVE ED WILL BE DEVELOPED FURTHER

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)?

SMC2.1 We believe that a more detailed review of the concepts in the addendum is needed to understand what specific differences (if any) exist. While on the face of it some of the words/concepts appear similar, however when applying the specific concepts differences may arise (e.g. 'current replacement cost' and 'replacement cost'). As measurement is a highly technical discipline, more rigour should be applied to establish whether the concepts are exactly the same or are different.

SMC2.2 There is insufficient guidance in the Consultation Paper to be able to adequately comment on whether the concepts of synergistic or equitable value should be reviewed for their relevance in the public sector. We note that these are concepts that are used in the IVS literature and could therefore be used for valuations to achieve a variety of objectives. In order for them to have relevance for financial reporting, they would need to be able to provide relevant information to users of the financial statements to hold entities accountable and to make decisions. If these bases do not contribute to the objectives of financial reporting, then we do not believe they should be considered.

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.

PV7.1 We support the view that borrowing costs should be expensed as borrowing costs relate to the funding of the asset rather than being an attribute of the asset itself or enhancing its economic benefits or service potential. We support expensing borrowing costs as this achieves greater comparability across entities. We also note that borrowings in the public sector are often limited, or where undertaken, are centralised and usually needed to fund a shortfall in revenue rather than a specific project.

PV7.2 A minority of respondents supported capitalising borrowing costs, but only where the financing is specifically incurred and directly attributable to the asset (option 3 on page 24 of the Consultation Paper).

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.

PV8.1 We support the proposed definition of transaction costs.

PV8.2 While we support the definition, we have questions about the explanatory guidance outlined on transaction costs, in particular paragraph 26 in the illustrative Exposure Draft. Paragraph 26 refers to the 'costs of ownership transfer'. This term is not commonly used in accounting literature. In our jurisdiction this would likely be translated as referring to transfer duty. We also question if this paragraph is necessary as the explanation in paragraph 25 explains the same concept. It is also unclear how transport costs should be dealt with based on the explanation in paragraph 26.

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.

PV9.1 We support the view that generic guidance on transaction costs should be provided in the IPSAS on *Measurement*. We note that it may still be necessary to provide specific guidance in the individual IPSAS. The guidance in the individual IPSAS and the IPSAS on *Measurement* should however be consistent.

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.

PV10.1 We support the proposed treatment of transaction costs when entering a transaction.

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.

PV11.1 We support the proposed treatment of transaction costs when exiting a transaction.

CHAPTER 4 – APPLYING THE MEASUREMENT PRINCIPLES IN THE CONCEPTUAL FRAMEWORK TO INDIVIDUAL IPSAS

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.

SMC3.1 In principle we support the idea of the flowcharts and how they will be used. The way in which they are applied should however be flexible enough to allow for outcomes different to the default positions when an alternative basis better achieves the objectives of financial reporting. We also note that the flowcharts are likely only useful for the subsequent measurement of assets and liabilities rather than initial measurement (particularly for non-exchange transactions).

SMC3.2 We have the following comments on the flow chart on assets:

- (a) Based on the decision that operational assets should be measured at replacement cost, we believe that this could justify removing the 'cost approach' from fair value. The types of assets that would typically be measured using the 'cost approach' under fair value are specialised assets such as infrastructure. As these assets are likely to be held for their operational capacity and not their financial capacity, there may not be a need for the 'cost approach'.
- (b) For the right-hand side of the flow chart that deals with financial capacity, there is no block questioning whether there is a change in the use of the asset from financial to operational capacity (the same block exists for the operational capacity part of the flowchart).
- (c) The flow chart should be developed using flow chart conventions. Some of the blocks are 'question' blocks and some 'decision' blocks – without any distinction it is sometimes difficult to understand (particularly the bottom part of the flow charts).

SMC3.3 We have the following comments on the flowchart for liabilities:

- (a) The measurement of liabilities is often dependent on the nature of the liability. We therefore believe that there may not be as high a need for a flowchart on liabilities. That being said, the basis outlined for measuring liabilities is reasonable.
- (b) We note that there may not be much difference between measuring short term liabilities using either of the measurement bases.
- (c) We note that some liabilities, such as financial guarantee contracts and loan commitments could be liabilities of 'uncertain timing and amount'. These are typically measured initially at fair value and then at the higher of the amortised revenue earned from the fee charged and the expected credit losses. While we note that this could be dealt with under the 'consider an alternative measurement basis', it seems inappropriate at the outset to consider a cost of fulfilment approach when existing guidance in IPSAS is very different.
- (d) Based on our comments on Appendix C, we note that 'amortised cost' is not 'historical cost' as defined – it may be a historical cost measure. This distinction needs to be made clear in the flowchart and throughout the illustrative Exposure Draft otherwise it is likely to cause confusion.

PART B – OTHER COMMENTS

Area	Comment
<p><i>General</i></p>	<p>Many of the discussions explaining the application of the measurement bases indicate that the measurement is determined ‘at reporting date’. Sometimes reference is made to a ‘measurement date’, and sometimes both ‘reporting date’ and ‘measurement date’. ‘Valuation date’ is also used.</p> <p>For the measurement bases to be used more widely (for example, on acquisition date for non-exchange transactions, the date of concluding public sector combinations, and at year end), it is suggested that reference is made to ‘measurement date’. The individual IPSAS will specify when the measurement should be undertaken.</p> <p>The linkages between what will be in the IPSAS on <i>Measurement</i> and what will be retained in other IPSAS is sometimes unclear. For example, explanations of replacement cost, service units and reproduction cost are included in the illustrative Exposure Draft. Similar discussions are included in IPSAS 21 and 26. It is unclear if the discussions will be retained in IPSAS 21 and 26.</p>
<p><i>Definitions</i></p>	<p>Cost approach: It is unclear if the definition and basis of calculation of ‘current replacement cost’ as envisaged as part of the ‘cost approach’ in determining fair value, and replacement cost explained in Appendix D are different.</p> <p>One point to consider is the absence of any discussion on the proceeds from the sale of the asset in the ‘cost approach’ in determining fair value.</p> <p>Market value: the reference to ‘market value’ is confusing when read with other definitions such as ‘market approach’, ‘market participants’, ‘market value for assets’, ‘market value for liabilities’. It seems as if these definitions belong to ‘market value’ when they actually belong to ‘fair value’.</p> <p>The definition should also refer to market value being determined at a ‘measurement date’ as with the other bases.</p> <p>There is no discussion on what a ‘market’ means or how it should be determined. Given that the public sector often transacts in limited markets (often only with other public sector entities) and/or in restricted markets, we believe it is worth discussing what a ‘market’ means in the public sector.</p> <p>Replacement cost: The definition refers to ‘reporting date’ – based on comments above, consider changing to ‘measurement date’.</p> <p>Unit of account: The IASB’s Conceptual Framework includes a discussion on ‘unit of account’. There is no equivalent discussion in the IPSASB’s Conceptual Framework. The IPSASB should consider this as part of its review of the Conceptual Framework.</p>
<p><i>Main body of ED</i></p>	<p>Paragraph 12: The 1st sentence indicates that fulfilment value “cannot be observed directly”. It is questionable whether this should be mentioned if fulfilment value is an entity specific measurement basis.</p> <p>Consider whether both paragraph 12 and 13 are needed as they explain similar ideas.</p> <p>Paragraph 15 to 18 – These paragraphs from the Conceptual Framework are too general to be of any value in an IPSAS that explains how to apply a</p>

	<p>measurement basis. It is suggested that they be deleted. If they are not deleted, we have the following comments:</p> <ul style="list-style-type: none"> • Paragraph 15/16 – These paragraphs explain depreciation and impairment. Neither of these concepts are unique to historical cost. • Paragraph 18 – This paragraph refers to discounting of liabilities. Discounting could however equally apply to receivables.
	<p>Paragraph 20 – This paragraph refers to reporting date and measurement date interchangeably. Consider only referring to measurement date.</p>
	<p>Paragraph 22 – This paragraph starts out by saying that “...replacement cost is different to fair value because...”</p> <p>This paragraph seems to conflict with the current guidance on fair value which allows the use of replacement cost when applying the ‘cost approach’.</p>
<i>Appendix A</i>	<p>If the cost approach is retained, we have the following comment on paragraph A19 - Paragraph D5 explains that a particular asset may need to be situated in a particular location because of legal or social policy decisions. It might be helpful to include a similar discussion in A19 as this is likely to be a reason for not being able to use a non-financial asset for its highest and best use.</p>
	<p>Paragraph A22(a)(i) - It might be helpful to include a reference to heritage assets as collections of heritage assets are often an example where the collection may have more value than the sum of the individual assets.</p>
	<p>Paragraph A29 - The list outlines examples when the transaction price of an asset or liability may be different to the fair value at acquisition. It might be helpful to include in the list that an entity may not charge a market related rate to achieve specific social policy objectives, e.g. the issuing of concessionary loans or financial guarantees where no or a nominal fee is charged.</p>
	<p>Paragraph A39 - There is no mention in A39 or A40 of the inclusion of the proceeds from the disposal of the asset at the end of its life in the valuation (as is the case when replacement cost is discussed in Appendix D).</p>
	<p>If the cost approach is retained, we have the following comments on paragraph A40 - It is unclear whether the determination of replacement cost in this appendix is on an ‘optimised’ basis or not (as is the case in Appendix D).</p> <p>It would be helpful if the differences between how replacement cost is defined and discussed in Appendix A and Appendix D could be compared, differences identified, and resolved. If they are meant to be determined on the same basis, then Appendix A should refer to Appendix D.</p>
<i>Appendix B</i>	<p>The linkages between this Appendix and existing Standards is unclear. Will the text explaining fulfilment value be removed from IPSAS 19 and IPSAS 42?</p>
	<p>Paragraph B1(c) - Is it necessary to separately list the timing of settlement? This is inherently part of the valuation technique.</p>
	<p>Paragraph B14 - Consider deleting the last sentence as it does not add anything. If this sentence is deleted, consider combining B14 and B15.</p>
	<p>Paragraph B22 - Reference is made to the ‘current counterparty’. The counterparty may not be known, which is often the case for provisions. An example is the payment of contractors for a remediation liability. The specific</p>

	<p>contractors may not be known when the provision is recognised so the identification of the 'current counterparty' seems impractical.</p>
	<p>Heading: 'Income Approach' – consider changing the formatting as the next discussion on 'present value techniques seems to be part of the 'income approach'.</p>
	<p>Paragraph B36 - For (b), consider changing the term 'contracts' to 'liabilities'.</p>
	<p>Paragraph B48 - Reference is made to 'current information at the end of the reporting period' – This implies that estimates are only made at year end which may not always be the case (e.g. public sector combinations).</p>
<i>Appendix C</i>	<p>Paragraph C1 - Consider amending as follows: "...at the time of its acquisition <u>and/or</u> development..." so that it is clear that an asset could be both acquired and subsequently developed (this proposed amendment is also consistent with wording in paragraph C11).</p> <p>Also consider changing the tenses of 'develop' or 'acquire' to past tense, i.e. 'developed' or 'acquired'.</p>
	<p>Paragraph C4 – Reference is made to a 'current value'. It is unclear what this 'current value' represents and how it would be calculated.</p>
	<p>Footnote 38 - "The application guidance focuses on historical cost for assets, because the consultation paper's flow chart for liability indicates that historical cost is not applicable to the measurement of liabilities." Page 41 of the Consultation Paper however seems to refer specifically to historical cost. This footnote seems to be inconsistent with the flow chart in the Consultation Paper.</p>
	<p>Paragraph C8 - Review the drafting of the last sentence as some wording seems to be missing.</p>
	<p>Paragraph C10 - An example of a bond is used in this paragraph. As bonds are initially measured at fair value at acquisition, this example seems inappropriate in a discussion of amortised cost.</p>
	<p>Paragraph C15(b)(v) - The IASB is proposing changes to whether these proceeds can be included in the cost of the assets. The IPSASB should monitor the project to ensure that the latest developments are included in the IPSAS on <i>Measurement</i>.</p>
<i>Appendix D</i>	<p>Paragraph D1 and D2 - The different use of the term 'reporting date' and 'measurement date' is observed.</p>
	<p>Paragraph D7 - The reference to 'design lives' should be changed to 'economic lives'. Design life is a term generally used by engineers and is often inconsistent with the idea of economic life for accounting purposes. Engineers will not change or extend the 'design life' of an asset, but for accounting purposes the actual use of an asset by all users (i.e. economic life) may extend beyond an asset's design life.</p>
	<p>Paragraph D16 - This paragraph should make it clear that even though land is included in the valuation, it should be accounted for separately in accordance with the relevant IPSAS.</p>
	<p>Paragraph D21 - Reference is made to 'listed' assets. It is unclear what this means.</p>

Paragraph D36 - Reference is made to “date of valuation” – consider amending as suggested.

Paragraph D38: The reference to borrowing costs be deleted.