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The International Public Sector Accounting Standards Board

277 Wellington St. West  
Toronto, ON  
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Submission via website

25 October 2021

Dear Ross

**COMMENTS ON ED 76 ON CONCEPTUAL FRAMEWORK UPDATE: CHAPTER 7,  
MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS**

We welcome the opportunity to provide comments on Exposure Draft (ED) 76 of the proposed Conceptual Framework Update: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*

*General*

We issued ED 76 for comment in our jurisdiction. We arranged a series of education sessions and roundtable discussions to solicit views from preparers, auditors, technical experts, academics, consultants, professional bodies and users. Members of the Pan African Federation of Accountants also attended these sessions.

The comments outlined in this response have been developed by the Secretariat of the ASB and not the Board.

*Overall impressions of ED 76*

We commend the IPSASB for the proposed update to the Conceptual Framework to ensure alignment with the proposed measurement requirements in ED 77, *Measurement* and to respond to the issues raised by respondents in the Consultation Paper on *Measurement*.

We support the proposed measurement hierarchy, and inclusion of fair value for assets and liabilities to maintain alignment with IFRS Standards. However, we have specific concerns on:

- a) introduction of a public sector specific measurement basis; and
- b) removal of measurement bases from the Conceptual Framework.

Board Members: Mr C Braxton (Chair), Mr D Dlamini, Ms W de Jager, Ms K Maree,  
Dr P Masegare, Ms P Moalusi (Deputy-Chair), Ms N Themba, Mr A van der Burgh  
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini



*Introduction of a public sector specific measurement basis*

We share the same concerns raised in the Alternative Views expressed in ED 76 and ED 77.

We considered the definition of current operational value (COV) and the related guidance in ED 77 and believe that the IPSASB should reconsider the inclusion of COV in the Conceptual Framework. Stakeholders found it difficult to understand how COV should be measured without extensive guidance and illustrative examples. Others indicated that although the definition requires clarity – they interpreted COV to be similar to replacement cost and cautioned against replacing a well-established and understandable concept with one that has no existing practice.

Our understanding of the development of this public sector specific measurement basis was to address concerns raised in the CP, that replacement cost cannot be used as a measurement basis as well as a measurement technique. We believe that a simpler approach to resolve this conflict is not to introduce a new measurement basis but to retain replacement cost as a measurement basis and remove the cost approach as a possible technique in ED 77.

*Removal of measurement bases from the Conceptual Framework*

We are concerned about the removal of certain measurement bases from the Conceptual Framework on the basis that they have limited usage at a Standard's level. We believe that the Conceptual Framework should set out the broad concepts that will be applied by the IPSASB in setting new Standards, or by preparers in the absence of guidance at a Standard's level. As such, regardless of their current usage, we would urge the IPSASB not to remove these measurement bases. Similarly, we disagree with the IPSASB's decision to remove value in use as a measurement basis.

Our detailed comments on ED 76 are set out in Annexure A – Responses to specific matters for comment.

If you have any questions regarding our responses, please feel free to contact me.

Yours sincerely



Jeanine Poggiolini

Technical Director

## ANNEXURE A – RESPONSES TO SPECIFIC MATTERS FOR COMMENT

### Specific Matter for Comment 1:

ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy?  
If not, why not? How would you modify it?

**We support the proposed inclusion of a measurement hierarchy that will be used by the IPSASB as a framework for the development of measurement requirements and guidance.**

### Specific Matter for Comment 2:

Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13, *Fair Value Measurement*, in the Conceptual Framework?

If not, why not?

**We agree with the proposed inclusion of fair value for assets and liabilities to maintain alignment with IFRS Standards and consistency with ED 77, *Measurement*.**

Consistent with our views expressed in our response to the Consultation Paper (CP) on *Measurement*, we believe that fair value as defined in IFRS 13 is an appropriate measurement basis for the public sector.

### Specific Matter for Comment 3:

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

If not, why not?

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

**We disagree with the proposed inclusion of current operational value (COV) as a measurement basis for assets.**

Following responses to the CP, the IPSASB decided to include fair value as defined in IFRS 13 in the Conceptual Framework. Stakeholders that responded to the CP noted that it may be challenging to apply an exit-based measurement basis for some assets in the public sector, and questioned the retention of replacement cost as a measurement basis and a measurement technique in estimating fair value. In response the IPSASB decided to remove replacement cost and introduce a public sector specific measurement basis to be used when it is inappropriate to apply fair value.

We do not agree with the IPSASB's approach to resolving the issues identified in the CP. Our reasons are outlined below.

#### *Definition lacks clarity*

Consistent with the Alternative View, we found the definition of COV difficult to understand. Our stakeholders shared the following concerns about the lack of conceptual clarity:

- “value” – it is unclear whether the measurement basis is intended to measure the value of the asset itself or the service potential of the asset.
- “service delivery objectives” – broadly speaking all public sector assets are used to achieve an entity’s service delivery objectives. The definition should rather focus on the concept of “replacing the service potential” embodied in an asset.

Unlike replacement cost – it is difficult to understand how COV should be measured. Replacement cost focuses on the cost of replacing the service potential of an asset, and measures how much it would cost to replace an asset that provides quantifiable outputs e.g., water infrastructure that is required to produce a specified number of kilolitres per hour. COV measures the value of an asset used to achieve service delivery objectives. Our interpretation of the definition is that the measure includes other performance measures in the valuation of the asset.

Some stakeholders interpreted COV to be similar to replacement cost, and cautioned the IPSASB against renaming and replicating the concept of replacement cost. They noted that replacement cost is a well-established and well-understood concept that is used by the accounting and valuation communities. The change to COV may result in increased subjectivity in measurement with no existing practice on which to base this measurement.

#### *Changing replacement cost to COV*

We disagree with the decision to remove replacement cost and consequently introduce a new measurement basis.

Currently, IPSAS 17 on *Property, Plant and Equipment* requires entities to estimate fair value with reference to market-based evidence. In the case of specialised assets, where there are no market-based prices, depreciated replacement cost (DRC) was used as a means of calculating fair value. We note that DRC is not applied as a separate measurement basis but is an approach to estimate fair value in the absence of market-based prices. This approach has been applied in IPSAS 17 without difficulties.

The IPSASB proposes that COV is measured using one of three techniques – market approach, cost approach and income approach. Our interpretation of the guidance in ED 77 is that when the cost approach is used to estimate COV, it would provide a measure that approximates the replacement cost under existing IPSAS 17 requirements.

#### **Recommendation**

We share the concerns raised by the IPSASB members in the Alternative Views in ED 76 and ED 77 on *Measurement*.

However, having considered the definition of COV and its related guidance in ED 77, we have the following recommendations:

We believe that the IPSASB can still address respondents’ concerns in the CP by retaining replacement cost. This will mean that:

- COV is not introduced as a public sector specific measurement basis.
- Replacement cost is the alternative measurement basis to fair value. It is applied to measure operational assets as the IPSASB intended with COV.

- Cost approach is removed as a possible measurement technique in ED 77. As a result, fair value can only be measured using the market or income approach. We do not believe that a separate measurement technique is required to determine replacement cost. Thus like historical cost, no technique will be identified for replacement cost.
- From a practical perspective, using IPSAS 17 as an example, entities could still have a choice to measure assets at a current value measure, and select fair value (using the market or income approaches) or replacement cost.

The suggested approach supports the IPSASB's measurement hierarchy and the accounting and valuation community is already familiar with the concept and there is existing guidance.

Alternatively, should the IPSASB, based on respondents' feedback, decide to proceed with the current proposals on COV, we suggest that further clarification and detailed illustrative guidance should be added to assist in the understanding and application of the new measurement basis.

#### **Specific Matter for Comment 4:**

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

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

#### **We disagree with the proposed change removing VIU as a measurement basis.**

The IPSASB decided to replace the definition of value in use with a limited discussion as its applicability is limited to impairments. In our view, VIU is a measurement basis and should be identified as such in the Conceptual Framework regardless of its limited applicability.

We note that the IASB identifies VIU as a measurement basis in its Conceptual Framework, and therefore do not believe that there are any public sector specific reasons why the IPSASB should not be aligned to the IASB in this regard.

#### **Recommendation**

We recommend that the IPSASB retains VIU as a measurement basis.

**Specific Matter for Comment 5:**

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

- Market value—for assets and liabilities; and
- Replacement cost—for assets?

If not, which would you retain and why?

*Market value*

**We agree with the proposed deletion of market value as a consequence of the decision to align fair value with IFRS 13.**

*Replacement cost*

**We do not agree with the removal of replacement cost and consequently the introduction of COV as explained in our response to SMC 3.**

**Recommendation**

We recommend that the IPSASB retains replacement cost and does not introduce COV. To resolve the conflict of the use of replacement cost in the cost approach, we suggest that the IPSASB removes the cost approach as a possible measurement technique in ED 77.

**Specific Matter for Comment 6:**

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

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

If not, which would you retain and why?

**We do not agree with the proposed deletion of net selling price, cost of release and assumption price from the Conceptual Framework.**

The IPSASB decided to delete these measurement bases as they have not been applied at a Standards' level. We disagree with this decision as the Conceptual Framework is intended to set out the broad principles that can be used by the IPSASB in the development of IPSAS, and also be used by preparers in the absence of guidance for specific transactions and events at a Standard's level. Therefore, while the IPSASB has not yet used these bases in the development of IPSAS, there is no harm in retaining them in the Conceptual Framework.

**Recommendation**

We recommend that the IPSASB retains these measurement bases.

**Specific Matter for Comment 7:**

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

**We have not identified any other issues relating to Chapter 7.**