



MEASUREMENT

Issued 11 October 2019

ICAEW welcomes the opportunity to comment on *Measurement* published by the International Public Sector Accounting Standards Board (IPSASB) in April 2019, a copy of which is available from this [link](#).

We broadly support IPSASB's proposal for an accounting standard on measurement which aims to provide generic guidance related to different measurement bases in one standard. We believe IPSASB could have approached this project differently by aligning with IFRS 13 *Fair Value Measurement* and to then consider providing additional guidance for commonly used public sector measurement bases such as depreciated replacement costs.

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KEY POINTS

SUPPORT FOR FURTHER GUIDANCE ON MEASUREMENT

1. We broadly support IPSASB's proposal for an accounting standard on measurement which aims to provide generic guidance on different measurement bases in one standard.
2. We believe IPSASB should have approached this project differently: by aligning with IFRS 13 *Fair Value Measurement* and then providing additional guidance for commonly used public sector measurement bases such as depreciated replacement cost. We question to what extent IPSASB are proposing to deviate from IFRS 13 and challenge the need for guidance if the deviations are minor.

STRUCTURE OF THE CONSULTATION

3. We note that incorporating an Exposure Draft (ED) in the Consultation Paper (CP) has increased the complexity of the paper. Whilst we can appreciate why this was done, re-exposure of the ED will be inevitable, causing more work for both IPSASB and stakeholders. Having an illustrative ED helps visualise the consequences of the CP, which is helpful, but IPSASB will need to weigh up the benefits against the costs on a case by case basis.
4. It is not obvious to what extent the illustrative ED is final in its design but we urge that the structure be changed to bring the majority of the content in the appendices, which is derived from IFRS 13, into the main standard. In our experience users of accounting standards will naturally give more weighting to the core standard rather than appendices. Prominence of position is important for this type of material.

INTERACTION BETWEEN THE CONCEPTUAL FRAMEWORK AND THE STANDARDS

5. The relationship between a potential standard on measurement and the Conceptual Framework (CF) comes across as muddled in this consultation. This is illustrated by the table on page 16 which shows that three of the eight measurement bases in the CF are not used in the standards at all. It also shows that fair value is used extensively in the standards yet does not feature in the CF. We believe that updates to standards should not be held back because it may render the CF out of date/inconsistent. In our view the accounting standards should take precedence over the CF – it is the standards that drive practice, and whilst the CF is useful for underpinning principles, it is not a priority for users of the accounts.
6. We know that a limited-scope review of the CF is planned. In our view this ought to address the current mismatch between measurement bases at the standards level and in the CF. We strongly encourage IPSASB to conclude which measurement bases should be used in the public sector and ensure logical linkages with the CF.

BORROWING COSTS

7. In our opinion, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset and as such including them in that cost can provide the most suitable valuation in those circumstances.
8. On the other hand, whilst we think that some public sector specific arguments put forward in the CP are also relevant to the private sector (albeit not as significant an issue as is implied in the CP), we appreciate the simplicity of expensing all borrowing costs. We also appreciate that at certain levels of government the allocation of borrowing costs will be challenging, but less so at other levels, such as local government and Government Business Enterprises.
9. We therefore prefer to keep the existing accounting policy options in IPSAS 5 *Borrowing Costs* which has a benchmark treatment to expense borrowing costs but allow for an alternative treatment to capitalise them in certain circumstances.

TRANSACTION COSTS

10. The illustrative ED included in the CP has provided guidance regarding transaction costs using exit and entry-based measurement bases and whether transactions are entity or

market specific. We believe that this particular way of looking at whether transaction costs should be included or not may not be easily understood by all users of the standards. We therefore recommend that IPSASB improve the sign-posting of how transaction costs are dealt with under each measurement basis in the detailed application guidance.

ANSWERS TO PRELIMINARY VIEWS AND SPECIFIC MATTER FOR COMMENT

Preliminary View 1

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?

11. We welcome the overdue alignment between IFRS 13 and IPSAS given the extensive application of fair value across IPSAS. We therefore support the introduction of an IPSAS equivalent to IFRS 13 and agree that users of IPSAS would benefit by having additional guidance on those measurement bases commonly used in the public sector. Any divergence from IFRS 13 should be clearly signposted and explained in the Basis for Conclusions. On that basis we agree with PV 1.
12. The current linkages between the standards and the CF regarding measurement are muddled and strongly encourage IPSASB to concluded which measurement bases should be applicable in the public sector. The table on page 16 details the usage of all measurement bases in existing IPSAS and shows that IPSASB need to clarify the measurements bases applicable in the standards and the links to the CF.

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.

13. We agree with the Preliminary View (PV) that the application guidance on the *Measurement* standard should be generic in nature, with transaction-specific measurement guidance being included in the relevant individual accounting standards.
14. We support IPSASB's decision to publish a separate Standard on measurement since, in our view, one of the key benefits of a future measurement standard will be alignment to IFRS 13. However, we do not agree with the current structure of the illustrative ED. The order in which content is presented in accounting standards matters with more weight being placed on the core standard rather than an appendix. For example regarding Appendix A, it currently contains both the core text as well as the application guidance of IFRS 13. We believe that the appendices should only contain application guidance and that any core text should be moved to the main standard.

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.

15. We agree with the PV and Appendix C: Historical Cost – Application Guidance appears to be complete.
16. We note that paragraph C13 is derived from IASB's CF BC6.32 and BC6.33. Given that C13 is only part of an illustrative ED, we will not propose drafting changes in this response but instead voice our concerns that IASB's Basis for Conclusions have been turned into an integral part the illustrative ED. Basis for Conclusions are not integral to standards and IPSASB should be referring to the core body of IASB's literature for use in their standards.

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.

17. We agree that fair value guidance should be aligned, as far as possible, with that contained in IFRS 13. We found the Addendum C very useful to gain assurances that IFRS 13 had been mapped across where possible. Where alignment with IFRS is a key priority, having such a mapping on a paragraph by paragraph basis is really helpful and reassuring.
18. In line with the point made above, IPSASB could consider signposting the source of the guidance as coming directly from IFRS 13 in the final standard. This would help put the fair value concept into context for those not familiar with private sector accounting standards, as well as underlining the importance of consistency between public and private sector accounting standards.
19. We recommend that more application guidance is provided in relation to highest and best use for non-financial assets (A18 to A21). We believe that paragraph A21 over-simplifies the fact that in the public sector there will be hard and soft restrictions in place that will prevent some entities from accessing the highest and best market. Example of a hard restriction could be legislation or a restrictive covenant over an asset, whilst a soft restriction could be the need to deliver public services in a particular geographic location which requires assets to be owned in those locations.
20. We agree, subject to the above paragraph, that Appendix A: Fair Value – Application Guidance appears to be complete.

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.

21. We agree that guidance should be based on the concepts developed in IPSASB's Conceptual Framework. *Appendix B: Fulfilment Value – Application Guidance* appears to be complete.
22. Paragraph B18 explains how transaction costs are accounted for but we believe it would be more useful to have transaction costs as a specific heading in each of the measurement bases? Appendix D has done this (D27) but none of the other appendices have, so at a minimum there is a consistency issue that should be reviewed.
23. We do not think the application of entity-specific values is well explained in paragraphs B14 and B15, in particular the relationship between market and entity based assumptions. For example, in paragraph B13, it states that the assumptions on the time value of money and risk premium are entity specific. Then paragraphs B14 and B15 say that the estimates should be market based and that the entity specific estimate should be the same as a market participant's estimate. B14 contains some typographical errors that need to be rectified.
24. Paragraphs B13 to B15 refer to risk premiums that an entity needs to estimate and it may be helpful to signpost that further explanations and examples are provided in Appendix A.

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.

25. We agree that guidance on replacement cost should be based on the concepts developed in the Conceptual Framework. We agree that *Appendix D: Replacement Cost – Application Guidance* appears to be complete.

Preliminary View 7

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.

26. We believe that the public sector specific arguments put forward to mandate the expensing of borrowing costs are somewhat exaggerated but we appreciate the simplicity of the approach. However, the goal of the measurement standard should be to assist in obtaining the most suitable valuation of an asset, which could include borrowing costs.
27. In our opinion, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are part of the cost of that asset. We also appreciate that at certain levels of government the allocation of borrowing costs will be more challenging whilst at other levels, such as local government and Government Business Enterprises, less so.
28. On balance, we would therefore prefer the capitalisation of borrowing costs be allowed as an accounting policy choice as is currently the case in IPSAS 5. We believe that deviating from IFRS in order to simplify the accounting for borrowing costs in the public sector is a valid reason.

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.

29. We support the creation of a single definition of transaction costs that can be applied to all IPSASs. We note the two different definitions found in IASB's literature are shown on page 28 and agree with updating the IFRS 9 definition as shown in PV 8.

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.

30. We agree with PV 9 that transaction costs should be addressed in a single location.

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 fulfilment 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.

31. See our response to PV 11 below.

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 fulfilment 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.

32. We believe that the IPSASB has come to the right conclusion as to when transaction costs should be included and excluded for both entering and exiting a transaction.
33. The illustrative ED makes it clear whether a particular measurement basis is entry or exit based and whether it is entity specific or not. The section covering transactions costs on page 50, in particular paragraphs 27 and 28, use this terminology to describe when transaction costs are included and when not. We challenge how easily this will be understood by account preparers who will not be used to thinking about transactions in those terms. For example, the last sentence in paragraph 28 says that transaction costs incurred in exiting a transaction are included in exit-based measurement bases when the measurement basis is entity specific. This is difficult to grasp.
34. As already mentioned in paragraph 22 above, it would help if the detailed application guidance would clearly signpost how transaction costs should be applied for each measurement bases. Currently, only appendix D has transaction costs as a heading. Furthermore, we recommend that IPSASB include a table that clearly shows whether transactions costs are included or not for each measurement bases.

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.

35. The illustrative ED contains all relevant definitions from IFRS 13 plus a few additional ones specific to the standard; we do not have any additional definitions to add.

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)?

36. With limited experience of IVS and GFS, we do not have a view on whether IPSASB's conclusion is correct on the apparent similarities in measurement between IPSAS and these other standards.
37. With regards to Equitable Value and Synergistic Value, IPSASB have to be sure about the benefits of using either basis over those already listed in the Conceptual Framework, especially given that some existing measurement bases are not currently used by the standards. In other words, IPSASB should not be adding more measurement bases if these are not going to be used.

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 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.

38. We agree that the measurement flow charts provide a helpful starting point for the IPSASB when reviewing measurement requirements in existing IPSAS and in developing new IPSAS.
39. In respect of Diagram 4.1 (page 38), we believe that the choice of whether to use current or historical values is an important, and often complex, decision. We support the provision of additional guidance to help entities in making the decision on whether to adopt a historical cost approach or a revaluation approach. Listing out the high level pros and cons of each would be helpful, for example.