

October 22, 2021

Mr. Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board (IPSASB)
International Federation of Accountants

Submitted via website

**Re.: IPSAS Exposure Draft 76,
Conceptual Framework Update: Chapter 7,
Measurement of Assets and Liabilities in Financial Statements**

Dear Mr. Carruthers,

We would like to thank you for the opportunity to provide the IPSASB with our comments on the proposed International Public Sector Accounting Standard – Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements (referred to hereinafter as “ED 76”).

We highlight specific key issues within general comments in this letter. Our responses to the various Specific Matters for Comment (SMC) are included in the appendix to this letter.

General Comments

We agree with the IPSASB’s approach to a measurement system. However, differences with regard to IFRS should be justified by specific characteristics of the public sector. Hence, we encourage the Board to clearly explain the public sector reason for the deviation from IFRS in regard of measurement.

We also agree with the inclusion and use of fair value under certain circumstances, i.e. limited to exceptional cases.

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We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Melanie Sack
Executive Director

Viola Eulner
Technical Manager

Appendix: Questions for Respondents and Perspectives Requested

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?

Yes, we agree – it is indeed not possible to identify a single measurement model or basis that best meets the measurement objective for all types of assets and liabilities under all circumstances. A measurement system is therefore needed. However, differences with regard to IAS/IFRS should be justified by specific characteristics of the public sector. Hence, we encourage the Board to clearly explain the public sector reason for the deviation from IFRS in regard of measurement.

Within this measurement system, given the different types of assets and liabilities, in our view it makes sense to distinguish between the two models (historic, current).

Within the current measurement model, considering the requirements for financial information defined in the qualitative characteristics (QCs), it makes sense to distinguish between different bases for different situations, transactions and elements of Financial Statements (based on the distinction between financial capacity and operational capacity)

Techniques are describing the way to derive explicit values – this in our view is helpful for preparers and users (as it supports comparability). Furthermore, it appears adequate to identify and clarify techniques not in the Framework but on the measurement standards level – we would support enriching the description of techniques by providing examples/transaction specific 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?

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Yes, we agree with the inclusion and use of fair value for assets and liabilities under certain circumstances, for which an open and orderly market exists.

In these situations, where assets are primarily held for financial capacity, the measurement basis supports an entity in providing a true and fair view of its total financial capacity.

However, we share the concern that fair value is not useful for public sector assets that are unique and rarely traded and where open and orderly markets do not exist.

We agree with IPSASB's conclusion that for situations with orderly markets a non-entity specific current exit value is needed to reflect the financial capacity of an entity. This conclusion supported the use of fair value in the definition of IFRS 13 by the IPSASB when drafting IPSAS 41 Financial Instruments. We further support the view that it should be avoided two global standard setters using the term "fair value" with different definitions. Therefore, we agree with using fair value in the definition of IFRS 13.

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 support the inclusion of a measurement basis that reflects the value of an asset to achieve the entity's service delivery objectives as provision of services is the main purpose of public sector assets.

We further agree that an alternative current value is needed for assets for which fair value cannot be used, in order to reflect the entity specific operational capacity. We therefore support basing the measurement on the current use and the assumption that the asset will continue to be used for service delivery rather than being sold.

However, we support the statement made in the Alternative View (AV) that the definition of Current Operational Value (COV) is not specific enough. Specifically, we would like to pronounce sympathy for the criticism stated in AV 8 and support the statement that the asset's service potential is best represented by the cost the entity is required to incur to replace the asset at the market (replacement cost).

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In addition, we recommend clarifying the relationship between COV and Value in Use (VIU). In our view, the Board could consider using VIU for other measurement purposes than for impairment only, as VIU may also provide an entity-specific valuation of relevant assets. From our perspective this needs clarification.

We furthermore agree with the viewpoint stated in the AV that the income approach is not an appropriate measurement technique for determining the COV. This measurement basis is explicitly defined for assets which are used for service provision, which in most cases is not connected to the generation of income.

Lastly, in our view it is not apparent, in how far “current operational value” and “current cost” according to IFRS (IFRS CF.6.11(c)) are different. Again, to deviate from the IFRS measurement base special public sector needs should exist. We do not share the view expressed in BC7.26 that these needs follow from the view, that “fair value” addresses “replacement cost” only in a not primarily operating context and therefore, substantively, “replacement cost” in a primarily operating context are not be addressed. According to IFRS-CF.6.21 “current cost” are the cost of an “equivalent” asset. Contrary to the view in BC7.27, in our opinion this definition in IFRS can also be transferred to operational assets.

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 agree with the IPSASB’s proposal 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.

We agree that for an entity using the current value model, fair value and current operational value are appropriate measurement bases. However, we encourage the Board to discuss whether the use of VIU is limited to accounting for losses or reversal of losses related to impairment. In this context, we identified that according to IFRS-CF.6.11(b), VIU is a “measurement basis” in its own right. It

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is not clear to us, which public sector specific reasons justify that this should be different under the updated IPSAS-CF.

In general, we encourage the IPSASB to clarify the relationship between COV and VIU of a non-cash generating asset.

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?

We agree with the deletion of market value as a current measurement basis as this is the logic consequence of using fair value in the definition of IFRS 13. A second market-oriented measurement basis reflecting the financial capacity of an asset is not needed and would create confusion.

We further agree with the deletion of replacement cost as a standalone measurement basis. Referring to our comments above, current operational value seems to be an appropriate measurement basis to reflect the operational value of an asset.

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 support the deletion of the listed measurement bases. Net selling price (for assets) and assumption price (for liabilities) are substituted by fair value. Furthermore, the proposed cost of fulfilment, in accordance with the decision of

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the IASB, seems to be the more relevant measurement basis compared to cost of release as also in the Public Sector it is relatively unusual for entities to obtain release from liabilities rather than fulfilling them. The IPSASB, during the standards development since 2014, has not identified sufficient examples of circumstances where cost of release is appropriate to justify retention. We agree with this observation.

Lastly, we support the deletion of “assumption price” with a view to the IFRS-alignment. However, in our understanding assumption price was the counterpart to replacement cost for assets. Based on that understanding, we recommend the Board to consider using the replacement concept not only for assets (in the form of the COV), but also for liabilities.

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?

So far, we have not identified any other issues relating to Chapter 7: Measurement of Asset and Liabilities in Financial Statements of the Conceptual Framework that we would like to highlight.