

IPSASB Conceptual Framework Exposure Draft Phase 3 —
Measurement of Assets and Liabilities in Financial Statements
response to exposure draft

30 April 2013

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Submitted electronically

April 2013

Dear Stephenie Fox

IPSASB Conceptual Framework Exposure Draft Phase 3 – *Measurement of Assets and Liabilities in Financial Statements*

CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs. A key element of this is the development of a public sector Conceptual Framework, which will aid both IFRS converged development and freestanding development of standards on public sector matters.

Selection of measurement bases during standard setting and in financial reporting

CIPFA agrees with the content of the material on Deprival Value and Fair Value, and indeed we would be sympathetic to using these approaches when considering measurement issues in future standards development by the Board.

However, in our view this material is too specific for an overarching framework document, and this does not help the flow of explanation within the document.

In our view it would be more helpful if a more high level approach were taken, setting out a measurement objective to drive the selection of a measurement basis or to determine a process for selection of a basis. This could be used both by the Board in its development of standards on specific topic, and by preparers when making choices between allowable measurement bases.

A suitable objective might be along the lines of

The measurement basis chosen for any class of asset or liability should be that which, having regard to the cost of measurement, provides the most useful information for accountability and decision making purposes.

The nature of an asset or the purpose for which it is being used may affect both the accountability issues and the types of decision under consideration. Where an asset is primarily intended to generate profits, then information relating to revenue generation potential may be particularly relevant. In contrast, where an asset is primarily intended to provide a service, it may be useful to incorporate information which reflects the benefit

provided by the asset in delivering the service. In similar vein, the operating context in which liabilities are incurred may affect the choice of measurement method.

Response to specific questions

Comments on the specific matters for comment are provided in the attached Annex.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours faithfully

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Specific Matters for Comment**Specific Matter for Comment 1**

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

CIPFA agrees that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting.

We also agree that there should be no single measurement basis (or combination of bases) prescribed by the Conceptual Framework but it should only identify the factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances.

As discussed in the covering letter, CIPFA considers that it would be helpful to provide an overarching objective to inform the selection of measurement bases. The following example objective, together with contextual explanation, could inform selection both by IPSASB during the development of standards, and also inform decisions by preparers when selecting between bases permitted under relevant standards:

The measurement basis chosen for any class of asset or liability should be that which, having regard to the cost of measurement, provides the most useful information for accountability and decision making purposes.

The nature of an asset or the purpose for which it is being used may affect both the accountability issues and the types of decision under consideration. Where an asset is primarily intended to generate profits, then information relating to revenue generation potential may be particularly relevant. In contrast, where an asset is primarily intended to provide a service, it may be useful to incorporate information which reflects the benefit provided by the asset in delivering the service. In similar vein, the operating context in which liabilities are incurred may affect the choice of measurement method.

Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

CIPFA agrees with the proposed current value measurement bases for assets.

Specific Matter for Comment 3

Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and
- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.

As noted at SMC 1 CIPFA believes that the inclusion of a measurement objective in the conceptual framework would be helpful both for clarity purposes, and in avoiding over specificity.

In the light of this we believe that the two measurement models (fair value and deprival models) included in the ED should not be placed in the Conceptual Framework but would be better addressed on a case by case basis at standards level.

Consideration of measurement models such as deprival or fair value could be undertaken during the standards development process, having regard to the specific matters being reported upon. Standards would then either specify one or more measurement bases to be used in specific circumstances, or the process to be undertaken by preparers to determine the appropriate measurement basis.

Specific Matter for Comment 4

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

CIPFA agrees with the proposed measurement bases for liabilities in Section 5.