



## Staff Paper

April 2011, AASB Agenda Paper 9.4 / FRSB Agenda Paper BX.X

### Draft Comments to IPSASB on Key Issues in Conceptual Framework Consultation Paper *Measurement of Assets and Liabilities in Financial Statements*

Members are requested to consider whether they agree with the comments below on the issues identified.

Issue	Board Comment
<p><b>Specific Matter for Comment 1</b></p> <p>The Consultation Paper (CP) says the IPSASB Framework should not identify an ideal measurement basis or combination of bases. It says the appropriate measurement basis will depend on the circumstances, and places heavy reliance on the extent to which the qualitative characteristics would be met under different measurement bases in the circumstances.</p> <p>It would be useful to provide conceptual guidance to help the IPSASB develop an improved mixed measurement model at a standards level. However, limiting measurement concepts to that role would make them largely practice-focused rather than aspirational, which is the primary role of a Framework.</p> <p>The qualitative characteristics do not provide a sufficient ‘framework’ for choosing between measurement bases. It is necessary to choose which concept of capital is most appropriate: this is addressed in the next issue below.</p>	<p>The IPSASB Framework should attempt to identify an ideal measurement basis or model, regardless of whether it also includes conceptual guidance to help the IPSASB develop an improved mixed measurement model at a standards level.</p>
<p>The CP discusses measurement bases that would be consistent with particular concepts of capital. However, in the CP, the choice of a concept of capital is not a ‘driver’ for choosing between measurement bases. Also, the CP does not evaluate which concept of capital would be conceptually ideal.</p> <p style="text-align: right;">/...</p>	<p>The IPSASB Framework should evaluate various concepts of capital as the starting point for choosing between different measurement bases.</p>

Examples of concepts of capital are nominal money capital, current cash equivalents and operating capability.	
<b>Issue</b>	<b>Board Comment</b>
<p><b>Specific Matter for Comment 2</b></p> <p>The CP discusses relative merits of a range of measurement bases listed in the Specific Matter for Comment. Those measurement bases do not include fair value, despite the widespread use of fair value by entities applying IPSASs.</p> <p>This Matter for Comment also asks respondents whether they have a preferred measurement basis or combination of bases.</p>	<p>The IPSASB Framework should add fair value to the measurement bases evaluated, or at least explain why fair value is not addressed.</p> <p>At this stage, it would be premature to propose a particular measurement basis or model. A decision about that issue requires extensive due process.</p>
<p>The CP discusses ‘market values’ as a measurement basis (Chapter 3). It does not specifically acknowledge the fundamental difference between market buying prices and market selling prices (see para. 3.3). Some of the analysis of market values implicitly assumes a market value would be an exit or selling price (see para. 3.12 – 3.13) and criticises market values from that standpoint.</p>	<p>The IPSASB should give greater acknowledgement of the differences between market entry prices and market exit prices.</p>

<b>Issue</b>	<b>Staff Comment<sup>1</sup></b>
<p><b>* Specific Matter for Comment 3</b></p> <p>Respondents are asked whether the discussion of historical cost, market value and replacement cost is complete, balanced and fair.</p>	<p>The main points to make about the discussion are the concerns noted above regarding:</p> <ul style="list-style-type: none"> <li>• the need to make the choice of concept of capital a driver of the analysis (rather than referring in passing to concepts of capital); and</li> <li>• the need to give greater acknowledgement of the differences between market entry prices and market exit prices.</li> </ul>

<sup>1</sup> The Boards did not discuss the following issues at their joint meeting in March 2011. Accordingly, the comments here are the staff’s recommendations for the Boards’ comments.

Issue	Staff Comment
<p><b>* Specific Matter for Comment 4</b></p> <p>Respondents are asked whether an entity’s own credit risk (discussed in Appendix A) should be reflected in the measurement of liabilities at initial recognition and subsequently.</p> <p>Staff think the key point on this issue is made in paragraph A3—namely, that the answer depends on the measurement basis adopted (staff agrees with that point). However, the following discussion in Appendix A treats own credit risk as a free-standing issue.</p>	<p>Given the Boards consider it premature to express a view on which measurement basis or model would be conceptually ideal, staff recommend that the Boards do not express an overall view on this issue.</p> <p>However, staff recommend pointing out the inconsistency in approach noted in the second paragraph on the left.</p>
<p><b>* Specific Matter for Comment 5</b></p> <p>In relation to the discussion in Appendix B, respondents are asked whether (non-financial) assets should be measured at amounts that:</p> <ul style="list-style-type: none"> <li>(a) reflect only their service potential relating to their existing use; or</li> <li>(b) also include any incremental value relating to their possible sale for an alternative use.</li> </ul> <p>Staff think the answer depends on the ideal concept of capital. For example, if a concept of capital that emphasises financial flexibility (e.g., current cash equivalents) is preferred, the answer to this question should be (b). Under the generally-accepted view of operating capability, the answer would be (a).</p>	<p>Given the Boards consider it premature to express a view on which measurement basis or model (and which concept of capital) would be conceptually ideal, staff recommend that the Boards do not express an overall view on this issue.</p> <p>However, staff recommend identifying this issue as an example of why it is essential to choose an ideal concept of capital before attempting to resolve consequential (lower-order) issues.</p>