

**AASB Staff Issues Paper on IPSASB Exposure Draft**  
***Measurement of Assets and Liabilities in Financial Statements***

**Introduction**

- 1 An overview of the AASB staff's main concerns regarding the IPSASB ED *Measurement of Assets and Liabilities in Financial Statements* is provided in Agenda Paper 13.9. That paper is the Board's submission on the IPSASB CP *Measurement of Assets and Liabilities in Financial Statements* (1 July 2011, excluding detailed comments) annotated to show the limited number of the Board's concerns that were addressed satisfactorily in the IPSASB ED. Concerns expressed in that submission that are not annotated remain unaddressed.
- 2 Comments on concerns that are additional to those set out in that annotated previous submission, and some elaborations of those previous comments, are provided below in paragraphs 3 – 12.

**Additional concerns/comments to those in Agenda Paper 13.9**

Alternative view of Ken Warren

- 3 AASB staff generally agree with Ken Warren's alternative view on pages 35 – 39 of the IPSASB ED. However, in addition to adopting the measurement objective proposed in Alternative View paragraph AV7, AASB staff think (consistently with the Board's submission on the CP) that a single concept of capital (wealth) is necessary, as it:
  - (a) has an economic significance that is understandable;
  - (b) produces measures that can meaningfully be added and validly compared; and
  - (c) provides a basis for determining which changes in assets and liabilities belong in the result (economic income) for the period.
- 4 In the absence of a single preferred concept of capital, the ED's discussion of relative merits of different measurement bases seems to lead nowhere because it is too complex to gain an overall view. Similarly, it seems unlikely that a Measurement chapter consistent with the ED would help the IPSASB make measurement decisions when developing new or revised IPSASs.
- 5 Despite disclaiming the need for a concept of capital, the ED includes arguments that imply adoption of particular concept(s) of capital. For example:
  - (a) paragraph 3.7 says that, in principle, market values fairly reflect the value of an asset to the entity. This is an empty statement unless the meaning of 'value to the entity' is defined;
  - (b) paragraph 3.26 refers to the usefulness of distinguishing the current cost of consumption from other price changes; this could imply a particular concept of income;

- (c) paragraph 3.42 says the value of an asset's service potential is often greater than its replacement cost; this requires identifying the meaning of the 'value of an asset'; and
  - (d) paragraph BC20 refers to an asset's service potential in a way that incorrectly implies a measure of wealth has been articulated.
- 6 If some concept or concepts of capital are implicit in the mind of the IPSASB, shouldn't it (or they) be made explicit?

#### *Financial capacity and operational capacity*

- 7 Ken Warren's alternative view (paragraph AV10) discusses financial capacity and operational capacity as if they are mutually exclusive. However, they need not be – the concept of operating capability encompasses monetary and non-monetary resources, and is wholly a financial concept (references to 'physical capital' made in earlier IPSASB drafts are a misnomer).
- 8 AASB staff think distinguishing financial capacity and operating capacity could lend support to those who argue that neither a single concept of capital nor a single measurement model is appropriate for all financial statement elements. Implicitly, it regards the operating capability of financial assets as necessarily being measured differently from their 'financial capacity': AASB staff do not support that view.

#### Fair value

- 9 The IPSASB ED responds to criticism (by the AASB and others) that the CP did not evaluate fair value as a possible measurement basis. The fair value model is discussed in paragraphs 4.5 – 4.8 of the ED. However, fair value is not one of the current value measurement bases discussed in Section 3 of the ED. AASB staff think this is a significant omission.
- 10 AASB staff recommend remedying that concern by replacing 'market value' with 'fair value' as a current value basis discussed in Chapter 3. This would also help avoid the potential for confusion arising from the use of 'market value' and 'fair value' in the ED, because:
- (a) fair value is defined as an exit price but encompasses replacement cost; whilst
  - (b) 'market value' is described in paragraph 3.6 of the IPSASB ED as potentially reflecting either an entry or exit price perspective.
- 11 Regarding paragraph 1.10, AASB staff see no reason for limiting fair value to inactive markets (or for limiting the use of deprival value to when the appropriate measurement basis is unclear from the objectives and qualitative characteristics).

#### Usefulness of historical cost

- 12 AASB staff think the ED is unduly generous regarding the usefulness of historical cost (bearing in mind it should always be assumed in concept that the differences between each measurement basis are material). For example, the discussion of the usefulness of historical cost for assessing the cost of services (in paragraph BC14) does not

express an overall view. In addition, paragraph 2.7 makes the surprising comment that historical cost can provide information about the amount of assets that may be used as ‘effective security’ for borrowings.

## **AASB staff’s comments on the Specific Matters for Comment in the IPSASB ED**

### Specific Matter for Comment 1

- 13 The objectives of financial reporting need to be supported by identifying key aspects (e.g. stocks and flows) of an entity to help provide a focus to choices between possible measurement attributes. In addition, staff think that, without identifying a concept of capital, it will be difficult to make coherent choices of measurement attributes by reference to the ‘objectives’.

### Specific Matter for Comment 2

- 14 AASB staff’s main concern with the current value measurement bases identified in Section 3 is their omission of fair value (see paragraphs 9 – 11 above).

### Specific Matters for Comment 3 and 4

- 15 At this stage (i.e. before conducting due process), AASB staff think it is premature to comment on the context in which fair value and deprival value are discussed in Section 4 and the proposed measurement bases for liabilities in Section 5 of the ED.

## **Comments from staff of the Australian Bureau of Statistics (ABS)**

- 16 In response to a letter of invitation from the AASB Chairman, staff of the ABS provided the following comments on the IPSASB ED:

“The ABS value assets and liabilities at the current market value for macroeconomic statistical purposes in accordance with the IMF GFSM and the 2008 SNA. The only exception is that both the IMF GFSM and the 2008 SNA record loans at the nominal value. Under the revised ABS GFS Manual, the ABS propose to record the market value of government concessional loans receivable and payable and the nominal value as supplementary information.

The ABS uses neither AASB 9 or AASB 139 for the recognition and measurement of financial instruments. Because we operate under an economic rather than accounting framework, we use the *International Monetary Fund Government Finance Statistics Manual (IMF GFSM)* (which is currently under review), and the *System of National Accounts, 2008 (2008 SNA)* for the recognition and measurement of financial instruments.

The ABS value financial instruments at the market value for the purpose of ABS statistics, however the current ABS GFS Manual uses the nominal value for the value of loans. This treatment is being revised as part of the ABS GFS Review with the purpose of moving to record the value of government concessional loans receivable and payable at the market value. The Australian National Accounts consider this treatment as the best reflection of the market reality in terms of valuing a financial instrument and the interest that accrues over its life. The IMF, however, require the nominal value of loans for

international reporting purposes. As part of the GFS Review, the ABS intends to collect data on loans on both bases.

In GFS, asset values are adjusted for holding gains or losses and recognised through the Statement of Other Economic Flows.”

- 17 In view of the Board’s position to date that it would be premature to express a view on an ideal measurement basis or model, these comments from ABS staff seem compatible with the AASB staff’s recommendations on the key issues to raise in the Board’s submission on the IPSASB ED.

#### **Questions for Board members**

**Q1.** Do you agree with reiterating the unaddressed concerns of the Board on the CP as reflected in Agenda Paper 13.9?

**Q2.** Do you agree with the concerns raised in paragraphs 3 – 12 above, and the staff views on the Specific Matters for Comment on the ED in paragraphs 13 – 15?

**Q3.** Are there any additional significant issues you consider should be raised in the Board’s submission on the IPSASB ED?