



**MINISTÈRE
DE L'ÉCONOMIE
DES FINANCES
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**Conseil de normalisation
des comptes publics**

Paris, October 14, 2021

Mr Ross Smith
Technical director
International Public Sector Accounting
Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
Toronto
Ontario M5V 3H2 CANADA

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

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Exposure Draft 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* published in April 2021 (ED76).

Overall, we welcome the measurement hierarchy; however, from a practical viewpoint, we would suggest that the hierarchy should be accompanied by a clearer mapping of the measurement bases and their relations to measurement models and their characteristics.

With respect to the introduction of the current operational value, we observe that from a conceptual viewpoint, the new measurement basis helps addressing the issues market value was previously purposed to reflect. This also allows for fair value to be more broadly brought into the Conceptual Framework which makes sense given that it is widely used in some individual standards.

Consistent though with the comments we made in our response to ED77, *Measurement*, we would like to bring the attention of the Board to implementation issues constituents may face in practice when applying the current operational value measurement basis.

In addition, we would suggest that the Board should further relate that new measurement basis to replacement cost and better explain why the latter was not retained as a measurement basis.

With respect to value in use, we acknowledge the limited circumstances in which the approach is to be used, hence the reason why it should not be reported as a measurement basis.

Lastly, we fully agree that those measurement bases that are not currently used and referred to in individual IPSASs should not be mentioned in the Conceptual Framework; this clean-up is highly welcome and enhances internal consistency.

We address each Specific Matter for Comment in the attached appendix.

Yours sincerely,

Michel Prada

APPENDIX

Specific Matter for Comment 1

ED76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy?

If not, why not? How would you modify it?

The introduction of the measurement hierarchy has merits at a conceptual level in that it provides a framework that helps selecting a measurement basis. From a practical viewpoint, some could argue that the measurement hierarchy calls for further guidance to navigate through to the selection of the measurement techniques, all the more that measurement techniques do not seem to be addressed in individual standards. We are conscious though that such guidance would be better located in the future standard on Measurement than in the Chapter on Measurement of Assets and Liabilities in Financial Statements in the Conceptual Framework.

While we agree that it is not possible to identify a single measurement model or measurement basis that best meets the measurement objective for assets and liabilities, we are confused that some measurement techniques may apply to different measurement bases. We believe that that could be confusing to users in the selection process; the table we propose in our comment letter in response to ED77 may be a relevant path forward to clarify that selection process¹.

Additionally, we find that paragraph 7.13 may be confusing: we would actually struggle with the possibility that various measurement bases could be selected from both measurement models. Furthermore, we understand from the description in paragraphs 7.8 and 7.9 that the proposed measurement models possess opposite characteristics, namely whether or not price changes should be taken into account. We would suggest that the opportunity of mentioning this possibility should be further explored and if relevant that it should be limited to situations that would be explicitly exposed in the future standard on Measurement. Practical issues could arise such as: “should a weighted average of measurement from the various models be retained?”.

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?

We agree with converging the definition of fair value with the IASB's, especially with respect to the measurement of financial instruments. This should highly facilitate the convergence process.

¹ See our response to ED77, SMC2

We note that with the introduction of fair value as a measurement basis in the Conceptual Framework, the reference to the market value is no longer relevant and was removed from the Conceptual Framework. We agree with that decision that helps clarifying when to use fair value or to turn to current operational value or cost of fulfillment.

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.

As mentioned in our comments to ED77, current operational value seems conceptually sound and well reflects an entity-specific entry value based on observable data adjusted for the current use of the asset. However, from a practical standpoint, we believe that constituents could experience difficulties when implementing the current operational value measurement basis.

In addition, we would suggest to better articulate with replacement cost that was removed from measurement bases on the one hand, and on the other hand the need for a completely new measurement basis that has never been mentioned in individual standards so far.

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 believe that the paragraphs that deal with value in use well present the limited circumstances in which the approach is to be used.

However, we would highly welcome, either as part of that project or in a future project on IPSAS 21/IPSAS 26, some further clarification as to the relationship between value in use and current operational value. We are concerned that we could actually envisage numerous situations where both measurements would provide the same output.

Additionally, because those paragraphs are located in the Measurement Bases for Assets section, we would suggest that it should be stated upfront that it is not a measurement basis for clarity purposes.

As to whether the same notion should be used for both cash-generating and non-cash generating assets, we are of the view that a general description in the Conceptual Framework is fine as it avoids multiplying notions to address one same concept: impairment. Individual standards are then the relevant location to explore further specific approaches to determine value in use: be it based on cash flows for cash-generating assets in IPSAS 26 or on the asset's remaining service potential for non-cash generating assets in IPSAS 21.

Specific Matter for Comment 5

Noting that ED77, 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?

Notwithstanding our other comments on this very topic above and in our response to ED77, we are unsure at this stage of the consequences of replacing measurement bases with measurement techniques.

While we believe, in the wake of our response to SMC2, that introducing fair value and removing market value is an improvement, we would suggest that the deletion of replacement cost and the introduction of the new notion of current operational value should be better explained.

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 agree with removing those measurement bases that are not used in the suite of standards.

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?

No further comments.