



**MINISTÈRE  
DE L'ÉCONOMIE  
DES FINANCES  
ET DE LA RELANCE**

*Liberté  
Égalité  
Fraternité*

**Le Président**

**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 77, *Measurement***

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Exposure Draft 77, *Measurement* published in April 2021 (ED77).

We commend the IPSAS Board for providing proposed guidance on measurement bases for both the historical cost and the current value models, beyond a mere convergence with IFRS 13 *Fair Value Measurement*. This was highly appreciated in our jurisdiction.

However, from a practical viewpoint, we would suggest that application guidance should be further developed to help users selecting the relevant measurement bases. We believe that such guidance would also allow for a better articulation between the objective of measurement in Chapter 7 of the Conceptual Framework and the future standard.

We would also like to take the opportunity of this response to recommend that specific requirements should be provided in situations where an asset is transferred for free from a public sector entity to another public sector entity (the entities not being under common control, e.g. between Central Government and a local authority) to carry out a public service mission. In our jurisdiction, the receiving entity would recognise the asset at its carrying value in the financial statements of the providing entity. This would therefore not be deemed cost based on current value measurement techniques as proposed in ED77. The need to address the issue of the transfer of assets between public sector entities is a comment we also made in response to ED79, *Non-current Assets Held for Sale and Discontinued Operations*.

In addition, we would appreciate that a change in measurement model or in measurement basis should be characterised in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* in the future standard on measurement or in individual IPSAS, wherever appropriate.

With respect to the current operational value measurement basis, while we acknowledge the conceptual merits of this new measurement basis, we would recommend that the need to discard replacement cost should be further elaborated on. This is because, in our jurisdiction, replacement cost is widely used and well understood in the public sector.

With respect to the cost of fulfillment measurement basis, we believe that some further communication as to how it relates to best estimate would be welcome.

Lastly, we are of the view that the proposals strike a good balance as to the location of generic disclosures requirements versus that of specific disclosure requirements.

Responses to the detailed questions set out in the ED are presented in the appendix.

Yours sincerely,

Michel Prada

## APPENDIX

### ***Specific Matter for Comment 1 - §7-16***

*Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless:*

- *That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes; or*
- *Otherwise required or permitted by another IPSAS?*

*If not, please provide your reasons, stating clearly what principles are more appropriate, and why.*

We agree broadly with the provisions for initial measurement of items that qualify for recognition.

However, we would also like to take this opportunity to raise an issue that the public sector in our jurisdiction often encounters. In situations where an asset is transferred for free from a public sector entity to another public sector entity (the entities not being under common control, e.g. between Central Government and a local authority) to carry out a public service mission, the receiving entity would recognise the asset at its carrying value in the financial statements of the providing entity. The initial measurement of the asset would therefore not be a deemed cost based on current value measurement techniques as proposed in paragraph 10. We would recommend that specific requirements for those particular cases should be provided.

In addition, with respect to paragraph 11 and the accounting for the difference between consideration given or received and deemed cost, we would rather that the standard refer to the hierarchy in paragraphs 14 and 15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* than provide a generic requirement as currently drafted. This would ensure that the future standard provides requirements that meet the objective stated in paragraph 1 and does not go beyond defining measurement bases.

Lastly, with respect to paragraph 16, we note that it is similar to paragraph 7.66 in Chapter 7 of the proposed revised Conceptual Framework (ED76), except that paragraph 7.66 deals with liabilities under historical cost. While we agree in principle that, for an asset, the total amount should be discounted when payment is deferred, we do not agree that the difference between the amount of the future (discounted) cash flows and the present value of the asset be amortised over the life of the asset. We believe that amortisation of the difference over the life of the element is an accounting treatment that is relevant only for a liability. For an asset, the difference should be amortised over the length of time before settlement falls due, which is usually shorter than the life of the asset. We would also like to point out that determining the discount rate is an issue in practice and that this issue relates well to the topic

being listed as one of the major (resource intensive) potential projects in Appendix B of the Mid-period consultation.

**Specific Matter for Comment 2 - §17**

*Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model.*

*If not, please provide your reasons, stating clearly what principles are more appropriate, and why.*

We concur with the proposal.

However, we believe that there would be merits in providing further practical insight as to how measurement bases would best reflect the models. To that effect, and while the discussion in BC7.17 to BC7.19 of ED76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* with respect to the robustness of the various characteristics of measurement bases is enlightening from a conceptual viewpoint, we attempted to map models and bases according to their main characteristics. We observed that the table below helped our constituents in understanding how relevant measurement bases could be selected.

	Historical cost	Current value		
		Current operational value	Fair value	Cost of fulfilment
Elements bases are applicable to	Assets and liabilities	Assets	Assets and liabilities	Liabilities
Entity-specific value	Entity-specific value	Entity-specific value	No	Entity-specific value
Entry/exit value	Entry value	Entry value	Exit value	Exit value
Availability of observable data in a market (for the selection of a measurement technique)	No	Yes, with adjustment to reflect current use of asset	Yes, even if indirectly with levels 2 and 3	No, use of discounted cash flows

In addition, we would appreciate confirmation that because it is an accounting policy choice, should management decide to change measurement model, the change should be accounted for as a change in accounting policies as described in IPSAS 3. We note that such a change would then be treated differently than a change in measurement technique that paragraph 41 requires should be treated as a change in accounting estimate.

On that very same topic, it would be useful to also touch on the accounting treatment for a change in measurement basis: would that qualify as a change in accounting policy or as a change in accounting estimate?

**Specific Matter for Comment 3 – Appendix A - §A1-A6**

*In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). Do you agree the guidance is appropriate for application by public sector entities?*

*If not, please provide your reasons, stating what guidance should be added or removed, and why.*

We agree that historical cost should only require little generic guidance.

However, we would suggest to present the effects of paragraphs 47 and 48 on the gross carrying amount before mentioning whether changes in underlying current market conditions may affect the gross carrying amount. This is because depreciation or amortisation and other similar effects are more frequent compared to consequences of changes in underlying current market conditions when it comes to applying the historical cost model.

With respect to paragraph A5, we are unsure that there is a need for a comparison with current value measurement in this appendix dedicated to historical cost.

Overall, we would suggest the proposed changes below:

*Subsequent Measurement*

A4. After initial measurement, the carrying amount of an asset or liability measured at historical cost is updated to reflect changes to the item as noted in paragraphs 47 and 48. However, the gross carrying amount of an asset or liability measured at historical cost remains unaffected by changes in the underlying current market conditions, unless those changes trigger an impairment. For example, the amount at which an item of property, plant, and equipment is recorded is not updated to reflect an increase in the current market price of the item after it has been acquired, constructed or developed.

~~A5. However, as with current value measurements, the carrying amount of an asset or liability measured at historical cost is updated to reflect changes to the item as noted in paragraphs 47 and 48.~~

We would also like to point out that in some non-English speaking jurisdictions, “amortised cost” as specified in AG6 would reflect the same subsequent measurement basis as “historical cost”.

***Specific Matter for Comment 4 – Appendix A - §A1-A6***

*Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement?*

*If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.*

We agree that the historical cost measurement basis is straightforward in situations described in subparagraphs (a) and (b) of paragraph A2.

However, where addressing the deemed cost in subparagraph (c) of paragraph A2, we would recommend that a reference to current value measurement techniques should be added for the sake of consistency with paragraph 10, and to help users navigating the standard.

With respect to amortised cost in A6, we wonder whether it should be considered a type of measurement basis or of measurement technique. We would appreciate if this could be further clarified.

***Specific Matter for Comment 5 - §6***

*Do you agree current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date?*

*If not, please provide your reasons, stating clearly what principles would be more appropriate for the public sector, and why.*

*The Exposure Draft includes an Alternative View on current operational value.*

We would agree from a conceptual viewpoint that the current operational value as defined in the draft standard might provide information that would enable users to assess the entity's operational capacity.

We also understand from the definition of current operational value that some assessment of the level of achievement of the entity's service delivery objectives would be required at each measurement date as it is a current measurement basis. From a practical standpoint, we would be concerned that such assessment at the measurement date in a public sector context (i.e. in the absence of quantifiable cash flows) may prove insufficient to provide a reliable value for an asset used to achieve a public sector entity's service delivery objective.

Additionally, with respect to the alternative view, we are partial to the reference to replacement cost and we are not convinced that it should have been removed from the list of bases in the draft standard in the first place. Indeed, it is a widely used measurement basis: in France for instance, we use that basis to measure prisons, dams and roads under a current value model.

**Specific Matter for Comment 6 – Appendix B – B1-B41**

*Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)?*

*If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.*

We are concerned that current operational value may be difficult to understand and implement to constituents that are used to measuring elements at replacement cost. In the draft standard, the reference to replacement cost appears as a subset of the cost approach (cf. §6 Definitions and Appendix B on Current operational value). We would infer that replacement cost was downgraded from a measurement basis in the Conceptual Framework to a mere illustration of a measurement technique for the new measurement basis current operational value. In light of the above comment, we would suggest that the reason why replacement cost was dropped as a measurement basis in the Conceptual Framework although it is present in the IASB's 2018 Framework, should be better explained.

**Specific Matter for Comment 7 - Appendix B – B6-B7**

*Do you agree the asset's current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used?*

*If not, please provide your reasons, stating clearly why the asset should be measured at a different value.*

We would agree that the location of the existing asset used to provide the service is a critical feature of the measurement of the asset in the public sector. Since proximity to citizens is a service in itself regardless of the cost, the notional replacement should be situated in the same location as the existing asset. This is a major difference with the highest and best use in IFRS 13 *Fair Value Measurement*.

**Specific Matter for Comment 8 - Appendix B – B38-B39**

*Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis?*

*If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value.*

*The Exposure Draft includes an Alternative View on current operational value.*

We agree that the income approach is a relevant measurement technique to estimate the current operational value of an asset, all the more that paragraph B39 states that "*Applying the income approach shall take into account the attributes of the asset*".

In our jurisdiction, we actually measure the electromagnetic spectrum using an income approach, and more specifically discounted future cash inflows. We are conscious though that this example refers to IPSAS 31, *Intangible Assets*.

Finally, while we understand from paragraph BC50 that some consistency issue would be better addressed through an IPSAS 31 standalone project, we also note that the consequential amendments to the current value model in IPSAS 31 do not refer to the current operational value, which we believe is a major internal consistency issue.

***Specific Matter for Comment 9 - Appendix C – C1-C89***

*In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on fair value has been aligned with IFRS 13, Fair Value Measurement (Appendix C: Fair Value). Do you agree the guidance is appropriate for application by public sector entities?*

*If not, please provide your reasons, stating what guidance should be added or removed, and why.*

We would see no reason to call into question the alignment with IFRS 13 where fair value is the relevant measurement basis.

We also appreciate that the Measurement project covers other measurement bases than just fair value, especially in the public sector where the cost model is key to reflect the cost of service.

***Specific Matter for Comment 10 - Appendix D – D1-D48***

*In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on cost of fulfillment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfillment). Do you agree the guidance is appropriate for application by public sector entities?*

*If not, please provide your reasons, stating what guidance should be added or removed, and why.*

First and foremost, we note that consequential amendments from cost of fulfillment are limited to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, and to IPSAS 42, *Social Benefits* and that no change was proposed to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, where measurement at best estimate is fully retained. With respect to IPSAS 42, cost of fulfillment is brought about alongside best estimate in paragraph 12, however, we believe that the link between those two measurement features is missing. We would therefore suggest that the Board should provide further insights as to how cost of fulfillment fits within the various individual standards that deal with non-financial liabilities.

We note in the June 2020<sup>1</sup> analysis of responses to the Consultation Paper Measurement (CP) that the comment we made on this issue at the time of the CP was considered an unedited response. We're unsure this is an appropriate path forward for this issue.

Other than the comment above, we have no further observation on guidance provided in Appendix D.

***Specific Matter for Comment 11***

*Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED77?*

*If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why.*

We agree that for the purpose of financial reporting there may be differing needs in disclosure requirements on assets or liabilities' measurement that can only be addressed at standard level.

***Specific Matter for Comment 12***

*Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED77, Measurement?*

*If yes, please provide your reasons, stating clearly what the disclosures are, and why.*

None that we can see.

***Specific Matter for Comment 13***

*Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value.*

*If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.*

We would agree with the proposal as long as disclosure requirements remain proportionate to the significance of the related element.

Generic disclosures pertaining to the use of a measurement basis should be kept in the future standard on Measurement while disclosures that would inform on specific aspects in the measurement of assets or liabilities should be addressed in the applicable individual standards. For instance, transaction costs

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<sup>1</sup> See Agenda Item 7.3.3 June 2020.

would generally not be included in the fair value measurement of long term assets while in some specific situations such as ED79, measurement refers to fair value less costs to sell.

***Specific Matter for Comment 14***

*Do you agree with the proposal disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSAS.*

*If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model.*

We agree with the proposal.

***Specific Matter for Comment 15***

*Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy?*

*If not, please provide your reasons, stating clearly why disclosure requirements for inputs in the fair value hierarchy are unnecessary.*

We agree with the proposal. Because fair value measurement may be achieved using three levels of inputs, we believe that requirements to disclose inputs are critical to get a correct understanding of the judgemental calls made in retaining those inputs. Such disclosures should also help enhancing comparability.