22 October 2021

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International Federation of Accountants
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CANADA

Submitted to: www.ifac.org

Dear Ross

IPSASB Measurement-related Exposure Drafts

Thank you for the opportunity to comment on Exposure Drafts 76 to 79 (the EDs). We have exposed the EDs in New Zealand and some New Zealand constituents may comment directly to you.

Background

In 2019 we commented on the Consultation Paper (CP) that preceded these EDs. The CP proposed to identify fair value, as defined in IFRS 13 *Fair Value Measurement*, as a measurement basis. Because the proposal to adopt fair value represented a change from the IPSASB's views when it developed the Conceptual Framework, we asked the IPSASB to explain why it had changed its views on the appropriateness of fair value in the measurement of public sector assets and liabilities, what this would mean for the measurement basis 'market value' in the Conceptual Framework, and the implications for individual IPSAS that require or permit a current value measurement basis.

Measurement basis proposals in ED 76 and ED 77

The EDs illustrate how the IPSASB's thinking on these issues has progressed and outline the proposed changes to the Conceptual Framework and specific IPSASs. We are pleased the IPSASB has issued a complete set of proposals so that constituents can more fully understand the implications of the proposals.

We have expressed general support for the IPSASB's proposal to adopt the IFRS 13 definition of fair value and to bring the IFRS 13 fair value requirements into IPSAS, but disagree with the current operational value (COV) proposals.

The EDs put forward two current value measurement bases (being COV and fair value), both of which could be measured using three approaches – market, cost and income. We think the proposed definition of COV and aspects of the COV proposals are unclear. We have found it difficult to identify what differences one would observe in practice between the two measurement bases (if similar approaches are used under each) and think it will be confusing if two measurement bases are applied to similar assets.

Given our disagreement with the COV proposals, we have tried to identify other options that the IPSASB could consider for moving forward with this project. One option would be to explore the possibility of fair value for non-financial assets and consider what public sector modifications would be required and the circumstances in which those modifications would be required. The advantage of this option is that there would be a single current value measurement basis aligned with IFRS 13 and the differences with IFRS Standards would be clearly identified.

Another option, which may be raised in other New Zealand submissions, would be to continue with the proposals for fair value and a public sector specific measurement basis, but for the public sector specific basis to focus on a cost approach. In order to avoid confusion about the application of the cost approach it might be simpler to limit the use of the cost approach to the public sector specific measurement basis. Although this would still result in two current value measurement bases, there would be only three techniques and each technique could be used under only one measurement basis. This would avoid some of the complexity in the current proposals.

Notwithstanding our overall disagreement with the COV proposals, we have commented on most of the SMCs about COV.

We have also commented on the proposals to remove certain measurement bases from the Conceptual Framework. In most cases we disagree with the proposed removal of measurement bases on the grounds that they are not being used in standards. The measurement bases exist regardless of whether they are currently used in a suite of standards and they can inform future debates both in new and existing standards.

ED 78 *Property, Plant and Equipment*

In addition to the proposals regarding revaluation, ED 78 proposes to require the recognition of heritage assets that can be reliably measured and to add some guidance on heritage and infrastructure assets. As New Zealand's PBE Standards already require the recognition of heritage assets that can be reliably measured we support the IPSASB's recognition proposal. We have also commented on some of the proposed additional guidance on heritage and infrastructure assets.

ED 79 *Non-current Assets Held for Sale and Discontinued Operations*

We support the introduction of an IPSAS based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and most of the proposals in that ED.

Public benefit entities in New Zealand

In commenting on the EDs we have thought about the needs of public benefit entities (PBEs) in New Zealand, including both public sector and not-for-profit entities such as charities. We have referred solely to public sector entities in a few places – this is because we have more information about the views of public sector entities on certain issues.

If you have any queries or require clarification of any matters in this letter, please contact Joanne Scott (joanne.scott@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery

Chair – New Zealand Accounting Standards Board

APPENDIX A: Responses on ED 76 Conceptual Framework Update: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*

General comments on ED 76 and ED 77

1. The IPSASB is proposing to include descriptions of measurement bases in ED 76 *and* ED 77, along with more detailed guidance in ED 77. We acknowledge that including descriptions of measurement bases in the Conceptual Framework is consistent with the original contents of Chapter 7 of the Conceptual Framework. The proposals could also be seen as being consistent with the fact that the IASB discusses fair value in its Conceptual Framework as well as in IFRS 13 *Fair Value Measurement*.

2. However, IFRS 13 provides more guidance on only one of the measurement bases in the IASB's Conceptual Framework. ED 77 would provide guidance on four measurement bases.

3. The overlap between ED 76 and ED 77 introduces the risk of inadvertent inconsistencies between the descriptions in ED 76 and ED 77. One way to reduce this risk would be to repeat the ED 76 descriptions as identical text in ED 77, possibly as boxed text. Another way would be to keep the descriptions in ED 76 as brief as possible.

ED 76 SMC 1: Measurement hierarchy

ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy? If not, why not? How would you modify it?

4. We do not object to the IPSASB developing a measurement hierarchy, but disagree with aspects of the proposed hierarchy. Our main concern is that the hierarchy does not show some of the fundamental components of subsequent measurement.

5. We would modify the proposed measurement hierarchy to show that depreciation/amortisation and impairment are fundamental components of subsequent measurement under historical cost. Both depreciation/amortisation and impairment include valuation concepts (such as value in use and net realisable value). We are not suggesting that the Conceptual Framework should get into any detail about these concepts – this detail is appropriately addressed at standards level. However, the Conceptual Framework should acknowledge that different techniques are used within standards.

6. The risk of omitting depreciation/amortisation and impairment from the hierarchy is that it could imply that the IPSASB is talking about subsequent measurement in gross terms. The fact that the choice between depreciation/amortisation and impairment is determined at standards level does not affect the fact that they are part of applying historical cost. We accept that it is possible to debate whether depreciation and impairment are 'techniques' but they contain measurement concepts (i.e. residual value and value-in-use) and should be shown in any diagram depicting subsequent measurement.

7. The ED refers to 'the historical cost model'. There is not a single historical cost model. The use of depreciation/amortisation or impairment in subsequent measurement has different implications for the financial statements.

8. If revaluations are not conducted every year, then depreciation/amortisation and impairment are also part of the subsequent measurement of revalued assets. It is not possible to discuss current operational value (COV) without reference to whether that value incorporates depreciation or not.

ED 76 SMC 2: Fair value as a measurement base

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?

9. We agree with the IPSASB's proposal to include fair value as a measurement basis in the Conceptual Framework and to adopt the same definition of fair value as in IFRS 13. We consider that closer alignment with the fair value requirements in IFRS® Standards will assist public sector entities that consolidate entities applying IFRS Standards. We also generally agree with most of the proposals in the EDs to align IPSAS with IFRS 13.

10. We note that the EDs propose changes to IPSAS 41 *Financial Instruments* and would like the IPSASB to carefully consider the implications of those changes for unlisted shares and equity contributions to public sector entities. See our response to ED 77 SMC 9.

11. Given our disagreement with the COV proposals, our responses to ED 76 SMC 3 and ED 77 SMC 6 consider possible ways forward. One of the options identified is the broader application of fair value to non-financial assets, with modifications for public sector specific issues as required.

ED 76 SMC 3: Current operational value as a measurement base

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? *Current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date.* *The Exposure Draft includes an Alternative View on current operational value.*

12. Overall, we do not agree with the proposed inclusion of COV as a measurement basis for assets.

13. We acknowledge that, in developing COV, the IPSASB has been responding to a concern that, if it were to adopt fair value as a measurement basis, there would be some assets where the application of the fair value requirements in IFRS 13 would not lead to appropriate information for decision-making and accountability purposes. However, the lack of clarity around COV and the potential confusion from having two current value measurement bases means that we do not support the COV proposals.

14. Our response to this SMC touches on current practice in New Zealand, feedback that these requirements work reasonably well, and our concerns regarding COV. Although our response

refers to current practice in New Zealand, we note that accrual accounting for public sector assets and the use of depreciated replacement cost for specialised public sector assets has been widespread in New Zealand since the 1990s. Over that time preparers and valuers have developed consistent methodologies for the measurement of specialised public sector assets using depreciated replacement cost.

15. Up until now the requirement or option to fair value certain assets in IPSAS has not given rise to many problems in New Zealand. This is for a number of reasons.

    (a) The definition of fair value in extant IPSAS differs from that in IFRS 13. IPSAS currently use the pre-IFRS 13 definition of fair value which refers to an exchange of assets and which does not explicitly require a market participant or exit price focus. That is, the definition of fair value currently used in most IPSAS is broader than that in IFRS 13.

    (b) The definition of an asset in IPSAS includes the asset's service potential.

    (c) IPSAS 17 *Property, Plant and Equipment* explains that for many assets such as land, non-specialised buildings, motor vehicles and some plant and equipment, fair value is readily obtainable in an active and liquid market. It acknowledges that this may not be the case for some public sector assets because of the absence of market transactions for those assets. It then explains the fair value of some assets (such as specialised buildings and other man-made structures) may need to be estimated and refers to depreciated replacement cost as one possible approach.[1]

    (d) Although there has been limited guidance in IPSAS on how to estimate fair value in the absence of market-based evidence, depreciated replacement cost has clearly been an acceptable way of estimating fair value and has been widely used in New Zealand.

    (e) When developing PBE IPSAS 17 *Property, Plant and Equipment*, which is based on IPSAS 17, the NZASB noted that neither IPSAS 17 nor IPSAS 21 *Impairment of Non-Cash-Generating Assets* provided guidance on depreciated replacement cost at the level of detail in previous accounting standards applied by New Zealand's public sector entities. The NZASB agreed that such guidance was required in order to enhance the consistency of measurement of asset in financial statements and included additional application guidance in PBE IPSAS 17.

16. Collectively these factors mean that there has not been a demand for an alternative measurement basis to fair value (as currently defined in IPSAS) for revalued assets.

17. The IPSASB is now proposing COV as a new measurement basis for assets primarily held for operational capacity. ED 76 paragraphs BC7.26 and BC7.27 (set out below) give the IPSASB's rationale.

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[1] In some jurisdictions, such as New Zealand, depreciated replacement cost has been widely applied to specialised buildings and other man-made structures where it is difficult to estimate fair value.

Extract from ED 76

Current Operational Value

BC7.26 The 2014 Conceptual Framework included replacement cost as a current value measurement basis, envisaging that it would be appropriate for specialized assets. As noted in paragraph BC7.25 the IPSASB has adopted an exit-based definition of fair value. The cost approach, a measurement technique for fair value, has some similarities to replacement cost. These inter-related factors necessitated the development of a measurement basis that can be applied to assets held primarily for operational capacity.

BC7.27 The IASB's 2018 Framework included current cost as a measurement basis for both assets and liabilities. The IPSASB considered whether current cost should be adopted as a current value measurement basis for assets that are primarily held for operational capacity (see paragraph BC7.68 for a discussion of current cost for liabilities). The IPSASB formed a view that a measurement basis similar to current cost is relevant in a public sector context for both specialized assets and non-specialized held for operational capacity. However, rather than the cost of an equivalent asset in the IASB's definition of current cost the IPSASB formed a view such a measurement basis should reflect an asset's existing use in delivering services. The IPSASB decided to use the term 'current operational value' for this measurement basis. Current operational value is a versatile measurement basis. For non-specialized assets, it can be supported by directly market-based measurement techniques with similarities to market value. For specialized assets, measurement techniques to determine the value of the asset may be applied. The updated Conceptual Framework therefore includes current operational value as a measurement basis for assets primarily held for operational capacity.

18. We have found it difficult to follow this rationale and difficult to understand exactly what COV is trying to achieve. Our reading of the cost approach to COV (in ED 77) is that it is similar in many respects to depreciated replacement cost. However, the market approach to current operational value would be very similar to fair value. We find this confusing and think that it runs the risk of bringing in a concept that would be applied in different ways by different entities.

19. We acknowledge that IFRS 13 permits the use of the market approach, the income approach and the cost approach. However, IFRS 13 clearly states that all of these approaches must be applied in conjunction with the *objective of a fair value measurement* in IFRS 13 paragraph 2; the requirements in IFRS 13 paragraph 2 have been incorporated in ED 77 in paragraphs C1 and C8.

20. The proposed definition of COV and the objective of a COV measurement is not as clear. For example, ED 77 paragraph BC33 talks about the "current value of the asset in its current use" which is very broad. Part (a) of that paragraph refers to "the amount an entity would incur at the measurement date to replace the capacity to achieve its present service delivery objective using its existing assets" which appears to be consistent with replacement cost. But part (b) refers to "the amount the entity would incur during the period to provide the service at the prevailing prices when an asset is measured" which could, but would not necessarily be, replacement cost.

21. We are concerned about the 'versatility' offered by COV. This versatility may have been seen by the IPSASB as necessary to deal with all the operational assets that COV would be applied to. We are not convinced that the fair value measurement objective is inappropriate for all

operational assets and are therefore not convinced that such versatility is required. We also note that versatility can lead to non-comparability for the measurement of similar assets.

22. Looking more closely at the proposed definition, we share the concerns outlined in the Alternative View on ED 76. We concur with the comments in the Alternative View that the definition is unclear. It is not clear from the proposed definition whether the objective is to measure the cost of acquiring an asset that could contribute to an entity's service delivery, the potential of an asset to deliver services, or what it would cost to buy the services that the asset contributes to.

23. In keeping with our comments above, we also concur with the comments in the Alternative View that the lack of clarity in the definition risks not achieving the qualitative characteristics of financial reporting. The possibility for variation in practice under the proposals is much greater than under existing requirements.

24. On the third point in the Alternative View (that it would be preferable to focus on the cost of replacing an asset used for its service potential) we agree (as discussed above) that replacement cost would be a clearer concept for preparers and users. However, we are not suggesting that replacement cost should be the required measurement basis for all revalued operational assets. We have reflected more on when an alternative measurement basis for revalued assets might be appropriate in our comments on ED 77 and ED 78.

25. Given our disagreement with the COV proposals, we have tried to identify other options that the IPSASB could consider. One option would be to explore the possibility of fair value as a single current value measurement basis for non-financial assets and consider what public sector modifications would be required and the circumstances in which those modifications would be required. The advantage of this option is that there would be a single current value measurement basis aligned with IFRS 13 and the differences with IFRS Standards would be clearly identified.

26. IFRS 13 has been widely applied in some jurisdictions such as Australia. We understand that, although Australian constituents have sought additional guidance on some aspects of AASB 13 *Fair Value Measurement*, there has not been widespread disagreement with that Standard as a whole. We also understand that to some extent IFRS 13 is already used as an additional source of guidance by entities applying PBE Standards in New Zealand.

27. Another option, which may be raised in other New Zealand submissions, would be to continue with the proposals for fair value and a public sector specific measurement basis, but for the public sector specific basis to focus on a cost approach. In order to avoid confusion about the application of the cost approach it might be simpler to limit the use of the cost approach to the public sector specific measurement basis. Although this would still result in two current value measurement bases, there would be only three techniques and each technique could be used under only one measurement basis.[2] This would avoid some of

[2] For example, fair value could be determined using the income approach or the market approach, but not the cost approach. The alternative current value measurement basis could be determined using the cost approach.

the complexity in the current proposals. This approach would maintain some alignment with IFRS 13.

ED 76 SMC 4: Description of value-in-use

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?

28. We acknowledge that VIU is used in limited circumstances in IPSAS, but the fact that it is used infrequently does not change whether it is a measurement basis. In our view, VIU is a measurement basis.

29. The discussion of VIU in the Conceptual Framework could be quite short, but the Conceptual Framework should refer to VIU as a measurement basis.

ED 76 SMC 5: Delete measurement bases – market value and replacement cost

Noting that ED 77, *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?

30. We agree with the removal of market value as a measurement basis if the IPSASB brings in fair value as a measurement basis. However, this support should be considered together with our concerns about the broader implications of the IPSASB's proposals.

31. As indicated in our responses to other SMCs, we disagree with a number of aspects of COV and consider that replacement cost is a clearer concept than COV. The Conceptual Framework should continue to acknowledge that replacement cost is a measurement basis, regardless of whether it is required by particular standards. Our comments on SMC 6 express similar concerns about the proposed deletion of other measurement bases.

ED 76 SMC 6: Delete measurement bases – net selling price, cost of release, assumption price

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?

32. We disagree with the proposed deletion of these measurement bases from the Conceptual Framework as part of a limited scope review. We acknowledge that these measurement bases may not have been used in standards to date, but a conceptual framework has a broader role than explaining the concepts in current standards. A conceptual framework should also help standard setters as they develop new standards and help preparers that are faced with situations not specifically addressed in standards.

33. Of the three bases mentioned in SMC 6, our main concern is about the proposed deletion of assumption price. We think that it can be a useful concept for public sector entities which can take on large and unusual liabilities during financial crises.

ED 76 SMC 7: Other issues

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?

34. We have not commented on ED 76 SMC 7.

APPENDIX B: Responses on ED 77 *Measurement*

35. We have not commented on SMCs 1–4.

ED 77 SMC 1—(paragraphs 7–16): Initial measurement

> 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.

ED 77 SMC 2—(paragraph 17): Subsequent measurement – historical cost or current value

> 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.

ED 77 SMC 3—Appendix A (paragraphs A1–A6): Historical cost guidance

> 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.

ED 77 SMC 4—Appendix A (paragraphs A1–A6): Historical cost no measurement technique needed

> 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.

ED 77 SMC 5—(paragraph 6): Current operational value – principle

> 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 [are] more appropriate for the public sector, and why.

36. We have commented on ED 77 SMC 5 and SMC 6 together. Our combined response is set out under SMC 6.

ED 77 SMC 6—Appendix B (paragraphs B1–B41):
Current operational value – definition and guidance

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.

37. Our comments on this SMC should be read together with our comments on ED 76 SMC 3. As mentioned in our response to SMC 3 of ED 76, we think the definition of COV and the objective of a COV measurement are unclear. We also disagree with aspects of the proposed guidance on COV.

38. We have commented first on two aspects of the proposals – surplus capacity and restrictions. We have then considered why the IPSASB felt that it was necessary to develop COV as an alternative current value measurement basis and what other options there might be for dealing with these concerns.

Surplus capacity

39. We agree with the Alternative View that there is a lack of clarity in relation to the proposed treatment of surplus capacity. Paragraph B36(c) of ED 77 says that COV should be reduced for 'external obsolescence', which can arise when there is a reduction in demand for the services that the asset can provide. However, such reduction in demand might also be a potential source of surplus capacity – which the ED says should be *included* (rather than deducted) when determining the asset's COV (subject to impairment). We think additional guidance should be provided to help entities determine when a reduction in demand is classified as obsolescence and when it is classified as surplus capacity.

40. We also agree with the Alternative View that more guidance is required about determining the unit of account when an asset has surplus capacity with an alternative use. In our view, if surplus capacity has a viable alternative use then the surplus capacity should be treated as a separate asset and measured separately.

Restrictions

41. We have received feedback that in some cases, the COV proposals could have a significant impact on the valuation of certain assets – particularly if an entity currently applies a discount for restrictions on the use or disposal of land.

42. The proposals have prompted discussion about the different types of restrictions that are observed in practice, which types of restrictions are relevant for financial reporting purposes and how those restrictions should be treated.

43. Land under roads is one example of land that may be regarded as being restricted. As noted in our response to ED 78 SMC 7, the treatment of land under state highways and local roads

in New Zealand differs, but in neither case is it discounted.[3] However, this is not necessarily the case in other jurisdictions. International guidance on what is and is not a restriction for financial reporting purposes could lead to more consistent treatment of such land.

44. Another example of land that may be regarded as restricted are reserves managed by local authorities. Such reserves can be important for protection of biodiversity in urban and rural areas as well as for provision of ecosystems services such as flood mitigation and soil conservation, and provision of amenity and recreation. The COV proposals in ED 77 would permit adjustments for restrictions only if the restrictions are legally enforceable. In theory some such land can be sold. For example, legislation sets out the process that a local authority must follow if it is proposing to sell or otherwise dispose of a park. However, we have heard that an entity managing reserves may have no practical ability to sell the land now, or in the future. The COV proposals about restricted assets are based on the rationale that if an entity would have to acquire land in a market where there are no equivalent restricted assets available then it would have to pay the market price. However, most public sector entities have no ability or intention to dispose of restricted land and purchase more land. We have heard that the proposals would create a different approach to some restricted land which may not reflect the practical effect of the restrictions.

IPSASB's reasons for proposing COV and possible ways forward

45. The IPSASB's rationale for developing COV as a public sector-specific measurement basis for all revalued operational capacity assets is set out in the Basis for Conclusions on ED 77 (from paragraph BC29 onwards). It states that the concepts of highest and best use and maximising the use of market participant data are generally not applicable in the public sector.

46. In our response to ED 76 SMC 3 we expressed disagreement with the COV proposals and identified two possible ways forward, one of which was the broader application of fair value to non-financial assets, with public sector modifications as required. We also noted that IFRS 13 has been widely applied in some jurisdictions such as Australia.

47. In conjunction with the IPSASB's consultation on EDs 76 and 77, the Australian Accounting Standards Board (AASB) issued an Invitation to Comment (ITC)[4] seeking feedback on aspects of the EDs relevant to the AASB's Fair Value Measurement of Not-for-Profit Entities project. That project was initiated following requests for guidance to assist the application of AASB 13 *Fair Value Measurement* in the not-for-profit (NFP) public sector, particularly to assets not held primarily for their ability to generate net cash inflows. The AASB's ITC outlined the AASB's preliminary thinking on some application issues, noted the relevant IPSASB proposals and sought feedback from constituents on these matters. We understand the AASB will be commenting to the IPSASB on this feedback.

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3 The land corridor under state highways is measured using the 'across the fence' methodology, with no discount. The across the fence methodology is based on the premise that the corridor land should be worth at least as much as the land through which it passes. Land under the roads managed by local authorities is generally held at deemed cost.

4 AASB ITC 45, Request for Comment on IPSASB Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7*, Measurement of Assets and Liabilities in Financial Statements and ED 77 *Measurement* (May 2021)

48. Although we have identified broader application of the fair value requirements in IFRS 13 as one of the possible ways forward, New Zealand constituents do not have the experience of Australian constituents in applying the requirements in IFRS 13 to a range of public sector assets. Therefore, New Zealand constituents and the NZASB have not had the types of discussions that have occurred in Australia regarding the issues that can arise and options for addressing those issues.

49. We therefore think the comments in the AASB's comment letter and the AASB's continuing consideration of these issues will be very helpful for the IPSASB in considering whether fair value could be used as a single current value measurement basis in IPSAS.

ED 77 SMC 7—Appendix B (paragraphs B6–B7): Current operational value – location assumption

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.

50. We agree that the value of land should be assessed with reference to the current location. This is consistent with the current practice of New Zealand public sector entities revaluing land at fair value in accordance with PBE IPSAS 17. Such entities use market-based evidence to the extent possible.

51. We note that IFRS 13 paragraph 11 requires that an entity applying fair value take into account the characteristics of an asset (such as location or condition) if market participants would take those characteristics into account.

ED 77 SMC 8—(paragraphs B38–B39): Current operational value – use of income approach

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*.

52. We partially agree with this SMC. Our agreement is partial because we acknowledge the matters raised in the Alternative View on this ED and share the concerns about the potential for inappropriate use of the income approach. This response outlines our concerns and concludes by suggesting that some guidance about the limited circumstances in which the income approach could be appropriate would be helpful.

53. While the proposed definition of COV does not refer to the cost of replacing an asset, paragraph B9 of ED 77 says that COV is an entry value, which implies that it is the cost of purchasing an equivalent asset. The use of the income approach appears to be inconsistent with the notion of an entry value and/or the cost of replacing the service potential embodied in an asset. This point is more about the lack of clarity regarding the principle underlying COV than the income approach.

54. Under the income approach, if entity-specific cash flows were used, similar assets could be valued very differently, depending on the entity's decision of how much to charge for its services. For example, the COV of a building used for social housing could vary, depending on how much of a 'discount' is provided to tenants as compared to market rent – and this decision could change every time there is a change in government (or a change in government policies). Services provided at nominal prices or at no charge would lead to very different 'income approach COVs' to 'market or cost approach COVs'. Differing policies (both over time and for different entities) could lead to a range of income approach COVs for similar assets or for the same asset over time. This variation could have a negative impact on the comparability and understandability of public sector entities' financial statements. Application of the income approach to entity-specific cash flows could also result in very low COV amounts, which would not faithfully reflect the remaining service potential embedded in the asset. It may also make it more difficult to know how much it would cost to replace the asset.

55. It may be that the IPSASB did not intend that entity-specific cash flows be used when applying the income approach. Rather, the IPSASB may have intended that the income approach be applied to the cash flows that would be derived if that asset were used commercially. If so, the proposals should state this.

56. We acknowledge that the income approach could be appropriate in some circumstances for operational assets. For example, if property that is not currently being used by an entity, but which is still being held for long-term operational purposes, is rented at market rates. However, we consider that such situations would be the exception rather than the norm, hence our opening comments on this SMC. If the IPSASB proceeds with its proposal to permit the use of the income approach for COV, we think that the IPSASB would also need to indicate when it is and is not appropriate.

ED 77 SMC 9—Appendix C (paragraphs C1–C89): Fair value

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.

57. We generally agree with aligning the measurement of fair value (when required by IPSAS) with the requirements in IFRS 13.

58. We note that ED 77 proposes changes to IPSAS 41 *Financial Instruments*[5] to align IPSAS 41 with the fair value requirements in IFRS 9 *Financial Instruments.* We have received some queries about the implications of those changes for unquoted equity instruments such as investments in other public sector entities that deliver services to a community or region.

[5] ED 77 proposes to amend IPSAS 41 paragraphs 9, 66, AG31, AG38, AG115 and AG117, add paragraphs AG143A–AG143AB, and delete paragraphs 67, 68 and AG144–AG155.

Some public sector entities currently measure the fair value of unquoted equity instruments such as equity contributions to other public sector entities using a net asset approach.

59. Illustrative Example 27 of IPSAS 41 discusses an adjusted net assets approach to unquoted equity instruments. As ED 77 does not propose any changes to this illustrative example, the adjusted net asset method could still be used. It is not immediately apparent to us that the proposed changes to the fair value requirements in IPSAS 41 would lead to different fair value measurements using the methods in the illustrative examples. In order to form a view on the proposals it would have been helpful to know what types of changes, if any, the IPSASB would expect to fair value measurement under IPSAS 41 and its views on those changes. This would still be helpful going forward, particularly for constituents currently using the adjusted net asset method, either by way of more detailed BC paragraphs or by way of educational material.

ED 77 SMC 10—Appendix D (paragraphs D1–D48): Cost of fulfillment

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.

60. We are pleased that the IPSASB has considered feedback on the CP. When we responded to the CP, we encouraged the IPSASB to consider whether it wants to adopt a measurement basis that includes a risk premium and why a risk premium is (or is not) appropriate. We noted that the appropriateness of including a risk margin for the liabilities of public sector entities has been the subject of much debate in New Zealand.

61. ED 77 paragraph D9, states that the inclusion of a risk premium in the calculation [of cost of fulfilment] will depend on guidance in the relevant IPSAS. This means that the issue will be considered on a standard-by-standard basis. Although this does not totally resolve the issue, it removes the presumption that a risk premium should always be applied.

ED 77 SMC 11: Disclosure – Located in individual IPSASs

Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77? If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why.

62. SMCs 11 to 15 deal with disclosure. We have responded to these questions without reiterating our concerns about COV. Despite this, our responses to these SMCs should be read in the light of our comments about COV.

63. We agree with the proposal to include disclosure requirements in the individual IPSAS to which the asset or liability pertains. Under this approach, preparers of financial statements will be able to see all the disclosure requirements relating to a specific type of asset or liability in one place. For example, under the proposed approach, the fair value disclosure

requirements for financial instruments would be included in IPSAS 30 *Financial Instruments: Disclosures*, together with other disclosure requirements for financial instruments (e.g. disclosures about impairment, hedge accounting, different types of risk, etc.).

64. We acknowledge that IFRS 13 *Fair Value Measurement* includes the fair value measurement disclosures for all assets and liabilities. However, we note that ED 77 covers not only fair value but three other measurement bases, including historical cost.

65. We agree with the IPSASB's proposal to include disclosure requirements in each relevant standard because the alternative approach of including all disclosure requirements, including historical cost disclosures, in one standard would be challenging and would run the risk of inadvertently changing existing historical cost disclosures. If the IPSASB were to include historical cost disclosures in ED 77 it would have to develop a set of disclosure requirements that would be applicable to all assets measured at historical cost. Currently, there are different disclosure requirements for assets that are measured at historical cost. For example, IPSAS 16 requires the disclosure of a reconciliation for investment property measured at historical cost, whereas such a reconciliation is not required under IPSAS 12 *Inventories* for inventory measured at historical cost. Furthermore, the disclosure requirements for financial assets and financial liabilities measured at amortised cost are quite different to those that apply to non-financial assets measured at historical cost. As noted above, it would be challenging to develop a single set of historical cost disclosure requirements for inclusion in ED 77, without changing the existing disclosure requirements for assets measured at historical cost.

ED 77 SMC 12: Disclosure – Any that should be located in ED 77?

Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, *Measurement*? If yes, please provide your reasons, stating clearly what the disclosures are, and why.

66. We have not commented on this SMC.

ED 77 SMC 13: Disclosure – Consistency across standards

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.

67. Before responding to the question posed by this SMC we would like to note that the proposed fair value disclosures for financial instruments and non-financial instruments are not exactly the same. Consistent with IFRS 13, there is a difference between two sets of disclosures. That is, for financial instruments measured at fair value using Level 3 inputs, the proposed consequential amendments to ED 77 include a proposed requirement to disclose the quantitative impact of a reasonably possible change in one or more of the unobservable

inputs that were used to determine fair value.[6] No such requirement is proposed for non-financial assets measured at fair value using Level 3 inputs. We support this difference.

68. Notwithstanding this difference, we agree that in general, the current value model disclosure requirements should be the same across IPSAS. When an asset is measured using current value bases such as fair value and COV, it is likely that users of financial statements would be interested in how that current value was arrived at and the uncertainty around significant unobservable inputs used, regardless of the type of asset (subject to materiality).

69. We have some specific comments about IPSAS 12 *Inventories.* The IPSASB is proposing to include fair value disclosure requirements in IPSAS 12 *Inventories.* We think this could cause confusion for preparers of financial statements. We understand that measurement of inventory at fair value after initial recognition is limited. It is applicable only to entities that are 'commodity broker-traders' (i.e. those who buy commodities with the purpose of selling in the near future and generating a surplus from fluctuations in price or broker-traders' margin). Otherwise, inventories must be measured at the lower of cost or net realisable value. We do not expect there to be many 'commodity broker-trader' entities in the public sector. Therefore, we would expect the number of public sector entities that measure inventory at fair value to be very limited. We are concerned that the proposed detailed fair value disclosure requirements in IPSAS 12 may lead some entities to incorrectly assume that they are required to provide these disclosures – for example, for inventory measured at net realisable value. To avoid confusion, we recommend that the IPSASB make it clear that the proposed fair value disclosures in IPSAS 12 apply only to commodity broker-traders.

70. Although we generally agree with requiring similar current value disclosures across all assets and liabilities measured under a current value model, we think that it is important for the IPSASB to take the opportunity to highlight the importance of considering materiality when applying disclosure requirements. The proposed current value disclosure requirements are relatively extensive and detailed and, as with any disclosure requirement, there are likely to be cases where the fair value disclosures are not material for a specific type of asset or liability held by an entity. IPSAS 1 paragraph 47 already states that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material. However, as shown by the discussions about the IASB's recent Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach*, such statements are not necessarily enough to prompt good discussions about materiality and the amount of detail that is appropriate.

71. The IASB's proposals attempt to address concerns that some entities use the current fair value disclosure requirements (and other disclosure requirements) as a 'checklist', without considering materiality – which sometimes leads to entities spending cost and effort on providing detailed information that is ultimately not material to users of financial statements. Similar concerns can arise in the public sector. We realise that the IPSASB has yet to consider some of the IASB's amendments to the materiality requirements in IFRS Standards, and that it will be some time before the IASB decides whether to proceed with its latest proposals. Nevertheless, we think that the factors that led the IASB to embark

[6] See Appendix E of ED 77 – consequential amendment to IPSAS 30, paragraph 30C(h)(ii).

on its latest disclosure project highlight the importance of taking every opportunity to stress the importance of materiality when applying the proposed current value disclosure requirements. The IASB's project also highlights the importance of seeking feedback from users when establishing disclosure requirements.

ED 77 SMC 14: Disclosure – Level of detail for recurring versus non-recurring

Do you agree with the proposal [that] 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.

72. In principle, we agree that "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 stated in SMC 14). However, we are not sure what the IPSASB intended to propose in relation to disclosures for "items measured at current value <u>at acquisition"</u>. We note the following.

    (a) There seems to be an inconsistency within SMC 14. The main question in the SMC asks about disclosure requirements for "items measured using the current value model *at acquisition*". However, the sentence that follows this question refers to "*non-recurring items* measured using the current value model". The proposed disclosure requirements for "non-recurring items measured using the current value model" in Appendix E of ED 77 and in ED 78 relate to items that are measured at fair value or COV *after initial recognition*. Therefore, the proposed disclosure requirements for "non-recurring items measured using the current value model" do not relate to "items measured using the current value model at acquisition".

    (b) SMC 14 asks whether the disclosure requirements for "items remeasured under the current value model at each reporting date" should be more detailed than "items measured using the current value model at acquisition". This implies that some disclosures are being proposed for items measured at current value at initial recognition. However, the EDs do not seem to propose any specific disclosure requirements for such items (other than retaining the existing requirements in IPSAS 31 to disclose the fair value of intangible assets acquired in non-exchange transactions, and the requirements in IPSAS 33 around 'deemed cost'). As noted above, based on the current drafting of the EDs, the proposed disclosures in ED 77 and ED 78 for non-recurring fair value or COV measurements would *not* apply to items measured at fair value or COV *on initial recognition*.

    (c) The EDs do not appear to propose any specific disclosure requirements for measurement at fair value or COV <u>at initial recognition.</u> We are generally in agreement with this approach, which would be consistent with IFRS Standards, but given the prevalence of non-exchange transactions in the public sector have recommended that the IPSASB consider the costs and benefits of disclosures about current value measures used on initial recognition of items acquired through non-exchange transactions.

73. We explain our response in more detail in the paragraphs that follow.

Response to the main question in SMC 14

74. In principle, we agree that the disclosure requirements for items measured under the current value model after initial recognition should be more detailed compared to disclosure requirements for items measured using a current value basis at acquisition (i.e. as deemed cost). Some aspects of the fair value and COV disclosures, such as changes in fair value or COV during the year, would not be relevant for items that were recognised at fair value or COV at initial recognition, but are subsequently measured under the historical cost model.

Our understanding: proposed disclosure requirements do not seem to apply to items measured at current value on initial recognition

75. We note that this SMC refers to "items measured using the current value model at acquisition", and also to "non-recurrent items measured using the current value model". In our understanding, the proposed disclosure requirements in Appendix E of ED 77 for "non-recurring items" and the equivalent disclosure requirements in ED 78 relate to non-recurring measurement at fair value or COV *after* initial recognition. That is, these proposals do not seem to relate to instances where fair value or COV is used as 'deemed cost' on initial recognition. Rather, the proposals seem to relate to 'one-off' measurements at fair value or COV that occur *after* initial recognition – for example, when an entity has been applying the historical cost model to an item of property, plant and equipment but has had to impair it to fair value less costs to sell in the current period.

76. As an example, we have reproduced below an extract from the proposed amendments to IPSAS 16 *Investment Property* (Appendix E of ED 77). Paragraph 89A refers to disclosures about recurring and non-recurring fair value measurement *after* initial recognition – and the proposed specific disclosure requirements in paragraph 89C refer back to paragraph 89A and to measurement after initial recognition.

89A. An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) For investment properties that are measured at fair value on a recurring or <u>non-recurring basis in the statement of financial position *after initial recognition*</u>, the measurement techniques and inputs used to develop those measurements; and

(b) For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on surplus or deficit or net assets/equity for the period.

[…]

89C. <u>To meet the objectives in paragraph 89A</u>, an entity shall disclose, at a minimum, the following information for each class of investment property […] measured at fair value (including measurements based on fair value within the scope of [draft] IPSAS [X] (ED 77), Measurement) in the statement of financial position <u>after initial recognition</u>:

[*Specific fair value disclosure requirements follow this paragraph in IPSAS 16.*]

77. Similar disclosure requirements are included in the proposed amendments to a number of standards.[7] These proposed disclosures are also included in ED 78, in relation to property, plant and equipment. We understand that those requirements would *not* apply to items measured at fair value or COV *at initial recognition*.

78. The proposed amendments to the abovementioned standards also include fair value disclosure requirements for assets that are *not measured at fair value in the statement of financial position, but for which fair value is disclosed*. For such items, the proposals would require entities to disclose a description of the measurement techniques and inputs used to determine fair value, whether the inputs used are observable or not, whether these inputs are in Level 1, 2 or 3 of the fair value hierarchy, quantification of Level 3 inputs, and sensitivity disclosures for items measured using Level 3 inputs. There are similar requirements in ED 78 with respect to items not measured at COV in the statement of financial performance, but for which COV is disclosed. These disclosure requirements would apply to items measured at fair value or current value on initial recognition *only if* there is a requirement to disclose that item's fair value or COV on initial recognition.

79. We note that IPSAS 31 currently requires entities to disclose the fair value on initial recognition for intangible assets that were acquired in a 'non-exchange transaction'. Therefore, the disclosures on fair value measurement outlined in the previous paragraphs would apply to such intangible assets. We also note that IPSAS 33 requires disclosure of the fair value that was used to determine an asset's or liability's 'deemed cost' when an entity applies IPSAS for the first time. Therefore, the disclosures on fair value measurement outlined in the previous paragraphs would apply to such assets and liabilities in the entity's first set of financial statements prepared under IPSAS. However, we are not aware of other standards where the disclosures on fair value in the previous paragraph would apply.

Recommendations

80. The EDs do not appear to propose any specific disclosure requirements for measurement at fair value or COV <u>at initial recognition</u> – except for intangible assets under IPSAS 31 and assets and liabilities recognised at deemed cost when IPSAS is applied for the first time under IPSAS 33. We are generally in agreement with this approach, which would be consistent with IFRS Standards. However, we note that acquiring assets through non-exchange transactions – and therefore having to estimate the current value of an asset on initial recognition – is likely to be more common in the public sector as compared to the for-profit sector. Therefore, some disclosure on fair value or COV measurement at initial recognition may be useful in the public sector. In considering the extent of such disclosures and level of detail that should be disclosed, it would be important to ensure that the costs do not outweigh the benefits of the disclosures. Please refer to our response to SMC 15.

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[7] See the proposed amendments to IPSAS 12 *Inventories*, IPSAS 27 *Agriculture*, IPSAS 30 *Financial Instruments: Disclosures*, IPSAS 31 *Intangible Assets*, IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, IPSAS 34 *Separate Financial Statements* and IPSAS 38 *Disclosure of Interests in Other Entities*.

81. If the reference to 'non-recurring measurement' was intended to refer to measurement at initial recognition, we would recommend clarifying the wording of these proposed requirements.

ED 77 SMC 15: Disclosure – Inputs to fair value hierarchy

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 [of] requirements for inputs in the fair value hierarchy are unnecessary.

82. We disagree with the proposal to require disclosure of inputs to the fair value hierarchy for most assets. We understand the rationale for proposing the disclosures on inputs used to determine fair value (and COV). However, in the public sector context, we consider that the costs of providing these disclosures would outweigh the benefits. Further explanation is included in the paragraphs below.

The rationale for the proposals

83. This paragraph sets out our understanding of the IPSASB's rationale for the proposals. The proposed disclosure requirements on inputs used in fair value measurement are based on the disclosure requirements in IFRS 13. We acknowledge the reason why IFRS 13 requires these disclosures. When an asset is measured at fair value, it is expected that users of financial statements would be interested to know how the value of these asset was determined – including information about the inputs used. Furthermore, assets and liabilities measured using unobservable inputs are more likely to be subject to measurement uncertainty – therefore, it is expected that users would want information about these inputs, the uncertainty around those inputs and the impact of this uncertainty on the financial statements. We acknowledge that these considerations are also relevant in the public sector. We also understand that in proposing to introduce IFRS 13-based disclosure requirements on inputs used to determine fair value, the IPSASB is aligning fair value-related disclosure requirements in IPSAS with those in IFRS Standards – which is consistent with the proposal to align fair value measurement requirements with those in IFRS Standards.

84. Despite understanding that rationale, we disagree with the impact of the proposals on non-financial assets.

Implications for non-financial assets

85. The disclosure proposals for *non-financial assets* represent a significant change from the existing fair value disclosure requirements in IPSAS. For example, IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant and Equipment* require that entities disclose "the method and significant assumptions applied" in determining the fair value of the respective asset. There are also requirements to disclose whether an independent valuer was involved in determining the fair value, and to what extent the valuation is based on market evidence/observable prices in an active market.

86. The IFRS 13-based disclosure requirements proposed by the IPSASB in relation to inputs used in determining fair value, particularly unobservable inputs in Level 3 of the fair value hierarchy, are significantly more detailed and extensive than these current requirements. For example, they include specific requirements to quantify Level 3 inputs and to provide disclosures about the sensitivity of these inputs.

87. SMC 15 focuses solely on disclosures about inputs used in determining *fair value*, but we note that ED 78 also proposes similar disclosures for unobservable inputs used in the determination of *COV* for property, plant and equipment. Therefore, there would also be an increase in the extent and detail of disclosure requirements for assets held for their operational capacity, as well as those held for their financial capacity.

88. We note that property, plant and equipment is the most commonly held type of non-financial asset among public sector entities. We also note that specialised assets, as well as assets that are not often traded, are prevalent in the public sector. Such assets are likely to be measured using unobservable inputs. Taking heritage assets as an example, the uniqueness of those assets can mean that there are no comparable inputs for valuation. The valuation models can be unique and detailed. The notes describing the inputs would also tend to be unique and detailed. The proposals would impose costs on both preparers and users (due to the increased volume of information being disclosed). Therefore, the more extensive and more detailed disclosures about unobservable inputs would likely have a significant impact on many public sector entities.

Costs and benefits

89. We think it is important to consider the costs and benefits of the proposed disclosures on inputs used in fair value and COV. We think that the costs and benefits of disclosure requirements in the public sector context merit separate consideration from recognition and measurement requirements. We are concerned that, in the public sector, the costs of providing information about unique and detailed valuation models would outweigh the benefits.

90. We also recommend including some information in the Basis for Conclusions on ED 77 and ED 78 on the key considerations that the IPSASB took into account in deciding what disclosures should be provided for assets measured at fair value and COV. Currently, this information does not seem to be included in the Basis for Conclusions of the respective EDs.

Guidance on materiality judgements

91. We note that the IASB recently issued the ED *Disclosure Requirements in IFRS Standards – A Pilot Approach*. The ED proposes that disclosure requirements in IFRS Standards should focus on *disclosure objectives*, which would be aligned with users' information needs and which would need to be complied with in order to comply with the relevant standard. The proposed overall disclosure objective for IFRS 13 is to provide information that "enables users of financial statements to evaluate the entity's *exposure to uncertainties associated with fair value measurements*". In relation to IFRS 13, the Basis for Conclusions of that ED notes the IASB's conclusion that "detailed information about some Level 2 fair value

measurements would be relevant to users of financial statements", and "detailed information about Level 3 fair value measurements is only relevant to users if those measurements are material".

92. We mention the IASB ED because we think it highlights the importance of relevance and materiality when applying the proposed disclosures on inputs to fair value and COV measurement. That is, there could be cases when detailed disclosures about unobservable 'Level 3' inputs would not be material, and conversely, there could be cases where information about Level 2 inputs could be relevant and material for users. We recommend that the IPSASB consider developing such guidance. This guidance could be within IPSAS, or outside of them in the form of educational material.

Editorial comment on terminology

93. We also note a difference in terminology between the fair value disclosure requirements in ED 77 and those in ED 78. The proposals in Appendix E of ED 77 refer to disclosures on "*measurement techniques* and inputs" used in determining fair value (for example, see paragraph 89A(a) of the proposed amendments to IPSAS 16). However, the equivalent requirements in ED 78 (paragraph 82(a)) refer to "*valuation techniques* and inputs". We recommend that the IPSASB clarify whether 'valuation techniques' have the same meaning as 'measurement techniques'. If the terms have the same meaning, we recommend considering using consistent terminology. If the terms have different meaning, we recommend explaining the difference.

Other comments on ED 77

IPSAS 23 – Assets acquired through non-exchange transactions

94. We note that the IPSASB is proposing to amend paragraph 42 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).* The amendment, as per ED 77, is shown below.

> 42. **An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition. <u>Appendix A of [draft] IPSAS [X] (ED 77), *Measurement*, provides guidance on measuring assets at fair value.</u>**

95. In the case of donated property that an entity chooses to measure using the current value model, it would be measured at fair value on initial recognition and at fair value or COV on subsequent recognition. This could lead to some increases or decreases on subsequent measurement. A Basis for Conclusions paragraph outlining the IPSASB's deliberations leading to the decision to rule out measurement at COV on initial recognition and on the impact of this on subsequent measurement would be helpful.

APPENDIX C: Responses on ED 78 *Property, Plant and Equipment*

ED 78 SMC 1: Relocation and restructuring

> [Draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment* proposes improvements to the existing requirements in IPSAS 17, *Property, Plant, and Equipment* by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), *Measurement*; relocating guidance that supports the core principles in this Exposure Draft to the application guidance; and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of the Exposure Draft.
>
> Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?

96. We have not commented on SMC 1.

ED 78 SMC 2—(paragraphs 29-30): Current value model – accounting policy choice

> Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value?
>
> If not, please provide your reasons, stating clearly which current value measurement basis would best address the needs of the users of the financial information, and why.

97. We have concerns about this proposal. These concerns are in addition to our comments on COV in ED 76 and ED 77. In those comments we touched on the difficulties of having two current value measurement bases which appear almost identical (apart from their objectives), the lack of clarity regarding the objective of COV and the fact that in New Zealand the use of the cost approach has been limited to circumstances when market-based evidence is not available or would not meet user needs. This has also limited the extent to which entity-specific measures are used. Wider application of entity-specific measures could lead to increased judgement and audit costs. Given these concerns, our overall response to this SMC is that we disagree with the proposal.

98. We are not convinced that it is appropriate to have two current value measurement bases (i.e. fair value and COV) for items such as non-specialised buildings. For assets held for their operational capacity, fair value measurement could still be useful, because fair value would reflect the opportunity cost of not using the asset for its 'highest and best use'.

99. We have had difficulty working out what this proposal means for the valuation of land and buildings. IPSAS 17 (as well as ED 78) states that land and buildings are separable assets and are accounted for separately. Despite this, valuations usually look at land and improvements together. The value of the improvements is often identified by looking at the value of the land and improvements together and then deducting the value of the land on its own. In some circumstances (for example, where there is no alternative use for the improvements) this could lead to inappropriately low amounts for the improvements. It is in such circumstances that depreciated replacement cost is commonly used in New Zealand to measure the improvements. However, this overall measurement has still been regarded as fair value (as per extant IPSAS).

100. ED 78 refers to making the accounting policy choice by class of assets, and land and buildings could be separate asset classes. In considering the application of the proposals to land and buildings we think it would be possible for an entity to decide that it is holding land for financial capacity but improvements for operational capacity. For example, this could occur if an entity has an operational building on a high-value inner city site or expects the value of land to increase over the next few years. If the IPSASB did not intend a mixed measurement to be possible, we think the standards would need to be clearer that this is not possible.

101. We also have concerns about the application of this proposal. In some cases, determining whether an asset is held for its financial or operational capacity would not be a clear-cut decision and would require judgement. Some assets may be held for both. Although ED 78 refers to the decision being guided by the primary objective for which an entity holds an asset, we do not think that the ED is sufficiently detailed to guide entities in making consistent decisions. It would be useful if the proposals clarified the 'unit of account' when assessing whether an asset is held for its financial or operational capacity – i.e. whether that assessment is to be made for the entire asset or for portions of the asset.

102. Some aspects of the proposed guidance appear similar to existing requirements in IPSAS 21 *Impairment of Non-Cash-Generating Assets* and IPSAS 26 *Impairment of Cash-Generating Assets* (which the ED does not change) – but they are not quite the same, which could lead to confusion. For example, the proposed distinction between assets held for their financial capacity and those held for their operational capacity is similar to, but not the same as, the existing distinction between 'cash generating assets' and 'non-cash generating assets'. Furthermore, it is unclear whether the term 'financial return' in the proposed guidance means the same as 'commercial return' in IPSAS 21 and IPSAS 26.

103. ED 78 (paragraph 30) states that "A change in the current value measurement basis, for example, from COV to fair value, or vice versa, is appropriate if the change results in a measurement that is more representative of the current value of the item of property, plant, and equipment." Given that the objectives of the two measurement bases differ, we are not sure what criteria an entity would use to decide whether one value is more representative than another.

ED 78 SMC 3—(paragraph AG3): Characteristics of heritage assets

> Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?
>
> Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.

104. We have not commented on SMC 3.

ED 78 SMC 4—(paragraph AG5): Characteristics of infrastructure assets

> Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?
>
> Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.

105. We have not commented on SMC 4.

ED 78 SMC 5—(paragraphs 80-81 and AG44-AG45): Disclosure of unrecognised heritage items

> This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably.
>
> Do you agree that such disclosure should be limited to heritage items?
>
> If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.

Disclosure of unrecognised heritage property, plant and equipment
(ED 78, paragraphs 80 and AG44-45)

106. We agree with SMC 5 that disclosures for assets that cannot be measured reliably be limited to heritage items. As explained in our response to this SMC, we support the proposed disclosure in ED 78 paragraph 80(b) but suggest alternative wording for paragraph 80(a). We propose the deletion of paragraph 81. For ease of reference we have shown ED 78 paragraphs 80, 81 and AG20 below. Our response discusses possible changes to these paragraphs.

Extract from ED 78

Disclosure of Unrecognized Heritage Property, Plant, and Equipment

80. Where heritage property, plant, and equipment—or class of heritage property, plant, and equipment—is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:
    (a) The difficulties in obtaining a reliable measurement that prevented recognition; and
    (b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.

81. Where subsequent expenditures on unrecognized heritage property, plant, and equipment are recognized, the disclosure requirements in paragraphs 72–79 will apply.

…

Subsequent Costs on Unrecognized Heritage Property, Plant, and Equipment

AG20. An entity recognizes subsequent expenditure on heritage property, plant, and equipment in accordance with the recognition principle in paragraph 7. Recognition of such subsequent expenditure as an asset is unaffected by whether or not the underlying heritage property, plant, and equipment was initially recognized. If the subsequent expenditure relates to heritage property, plant, and equipment, that was not recognized initially, because its cost or current value could not be measured reliably, it should nonetheless be reviewed in light of paragraph 7 to determine whether or not it meets the recognition principle and should be recognized as an asset.

107. With heritage items, the value is often ascribed to the significance of an asset as opposed to its financial value. For example, an ink pen is of limited value, but the ink pen that was used in the signing of the Treaty of Waitangi[8] has great historical significance.

108. Therefore, instead of describing the difficulties in measurement it would be more useful to the user to have a description of the significance of the item. The significance of a heritage item to an ethnic group is not readily converted to financial value but is nonetheless an important indicator of heritage in the museum community. We therefore support the proposed disclosure in ED 78 paragraph 80(b).

109. Current values are also useful information for users, and these could be disclosed in the notes. For example, an insurance valuation, or a government's rateable value for a property could be disclosed, noting they are not intended to be a COV but nevertheless still provide relevant information for a user as compared to no value at all. We appreciate that these types of values will only exist for some assets, but this should not preclude disclosure of information that is useful to the users.

110. We therefore propose the following wording for ED 78 paragraph 80(a). Our suggestion is underlined.

Disclosure of Unrecognized Heritage Property, Plant, and Equipment

80. Where heritage property, plant, and equipment—or class of heritage property, plant, and equipment—is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose:

(a) Where current information is available, an estimate of the value of those unrecognised assets, such as recent insurance value or a government valuation for rating purposes ~~The difficulties in obtaining a reliable measurement that prevented recognition~~; and

(b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.

Subsequent expenditures on unrecognised heritage items
(ED 78, paragraphs 72 and 81)

111. ED 78 proposes to clarify (in paragraph AG20) that subsequent expenditure on heritage assets may meet the requirements for separate recognition as an asset, despite the original heritage asset to which it relates not having been recognised. We support this clarification and agree, as proposed in ED 78 paragraph 81, that the disclosure requirements in the standard should apply to all classes of assets including those relating to subsequent expenditure on unrecognised heritage assets. However, paragraph 81 is the first time that subsequent expenditures on unrecognised assets are mentioned in ED 78. Without the explanation in paragraph AG20 readers may think that paragraph 81 is referring to the unrecognised heritage asset as well as the subsequent expenditure.

[8] The Treaty of Waitangi is New Zealand's founding document.

112. There are a few ways of avoiding this confusion, all of which involve deleting paragraph 81. The first option would be to delete paragraph 81 without adding any further explanation in paragraph 72 or AG20. The disclosure requirements in standards apply to all classes of assets unless they are specifically excluded from that requirement. However, if the IPSASB wants to highlight the need to apply the general disclosure requirements to all classes of recognised assets, including subsequent expenditure on heritage assets, it could include a statement to this effect in paragraph A20 or modify paragraph 72, as shown below.

> 72. The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements, (including any class of assets for subsequent expenditure on unrecognised heritage assets):
>
> (a) …

ED 78 SMC 6: IG for heritage assets

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why.

IG for heritage assets (ED 78, paragraphs IG6 and IG7)

113. We welcome the inclusion of additional guidance on assessing control of heritage assets (in paragraphs IG6 and IG7) and have some comments on the proposed guidance.

Determination of control of assets (paragraphs IG6 and IG7)

114. Determination of control is based on indicators, including the timing specified in the agreement.

    (a) Under paragraph IG6 a right to hold heritage items for a **defined period** under an agreement is assessed as **not** giving rise to control.

    (b) Under paragraph IG7 a right to hold heritage items for an **indefinite period** with no legal ownership is assessed as giving rise to control.

115. This implementation guidance could lead to museums tailoring their agreements depending upon whether or not they wish to recognise heritage assets. Consequently, these examples would not improve comparability across the museum sector.

116. We agree with the use of "individuals or group of individuals" in paragraph IG6 to appropriately acknowledge all those who are loaning items to museums.

117. We also support the use of the terminology "parties" in paragraph IG7 as this includes indigenous groups such as Māori iwi[9] and individuals.

[9] The term iwi often refers to a large group of people descended from a common ancestor and associated with a distinct territory.

Effect of storage on control status (paragraph IG8)

118. We agree with the inclusion of paragraph IG8 (shown below) but recommend that it be amended to focus on the effect of control of storage, rather than focussing only on the control scenario. We propose the following changes to paragraph IG8.

~~**Does an entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?**~~
Does the current control status of items in a heritage collection change if it holds them in storage instead of displaying them to the public?

IG8. No. ~~Yes.~~ The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items. The entity still controls items in its heritage collection when it holds them in storage (for example, in a warehouse or research laboratory) instead of displaying them to the public. Items in a heritage collection which are not controlled but are held in storage, continue to be not controlled. ~~The entity's decision to hold the items in storage does not affect the entity's control over the resource represented by the items.~~ In applying the application guidance in [draft] IPSAS [X] (ED 78) and professional judgment to the facts of the situation the entity has control over the resource represented by the items. This is because it has the ability to use the resource or direct other parties about their use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

ED 78 SMC 7: IG for infrastructure assets

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on infrastructure assets are required, and why.

Costs relating to road infrastructure

119. For road infrastructure (e.g. state highways) there is no guidance in IPSAS as to how certain costs (e.g. formation costs, brownfield costs etc) should be treated for subsequent valuation purposes. We discuss these two examples below.

120. Formation is effectively measuring the cost of the earthworks and what has been removed to allow the roading construction to take place. These costs are usually not incurred again and are usually treated as a separate component within the roading valuation. There is currently no guidance as to how formation costs should be estimated across an entire network as it is not practicable to determine this component for each metre of the road and there can be knowledge issues about the pre-existing condition of land prior to construction.

121. Significant costs can be incurred in constructing a road due to the location of the road being in an already developed area. For example, if a new road is being built in an urban area, this may require the roading authority to purchase and demolish/relocate houses, require compensation payments, and incur significant traffic management/security costs. These are often referred to as brownfield costs. Some of these could be one-off costs that would not be incurred again when the road is replaced, whereas others would be incurred again. As with formation costs there can be challenges in reflecting these costs in the valuation,

particularly for historical costs. We think it would be useful if the IPSASB developed application guidance regarding these costs.

Land beside and under roads

122. Some public sector entities hold land that is under or beside infrastructure assets, such as road and railway corridor land. In New Zealand, local authorities tend to use deemed cost for land under roads, but central government values land under state highways using the across the fence methodology, with no discount. The across the fence methodology is based on the premise that the corridor land should be worth at least as much as the land through which it passes.

123. We are aware of arguments (some of which are shown below) that across the fence values should be adjusted in some way.

    (a) Arguments for a discount are primarily based on the fact that across the fence values would be unlikely to be realised if the land were to be sold because there would be limited buyers (likely only neighbouring owners). The purchaser's assessment of the added value of securing the strip would also often be lower than the across the fence values. Accordingly, based on an 'exit' price, the infrastructure asset land owner would likely realise less than the across the fence value. This exit price notion would generally suggest some form of discount to the across the fence value. There is also the question of whether the cost of removing assets on the land (e.g. the physical road or rail tracks) and remediating the land should be factored into the valuation as a cost of conversion to the adjacent use.

    (b) An alternative approach would be to consider the value of the corridor in terms of 'entry' price. The across the fence value could represent the starting value, and there could be other development costs and enhanced value to reflect the corridor land "construction" (such as formation costs). Under this entry price approach, the corridor value would likely be greater than the across the fence value.

124. In our response to ED 77 SMC 6 we have suggested that the IPSASB provide guidance on what and is what not a restriction and how restrictions affect measurement for financial reporting purposes. Corridor land is one area where there appears to be diversity across jurisdictions and which would benefit from more guidance.

Additional guidance on directly attributable costs

125. We note that certain directly attributable costs are set out in ED 78 paragraph 16(a)–(f). However, we think the application guidance could have a fuller description of other directly attributable costs. For example, a previous New Zealand accounting standard FRS 3 *Accounting for Property, Plant and Equipment* contained useful guidance about other types of directly attributable costs in paragraph 5.6 as follows.

> … Examples of directly attributable costs are borrowing costs, survey costs, the cost of obtaining resource consents, site preparation costs including land formation costs, installation costs including architectural and engineering fees, freight, and charges for installation, commissioning and testing….

Other comments on ED 78

Paragraph 67

126. The first sentence in ED 78 paragraph 67 differs from IPSAS 17 paragraph 83A (see blue shading below). We do not understand why the word 'ordinary' was omitted from the first sentence in paragraph 67 and request that the IPSASB confirms that this change was intentional.

IPSAS 17	ED 78
Derecognition 82. **The carrying amount of an item of property, plant, and equipment shall be derecognized:** (a) **On disposal; or** (b) **When no future economic benefits or service potential is expected from its use or disposal.** 83. **The gain or loss arising …** 83A. However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognized as revenue in accordance with IPSAS 9, *Revenue from Exchange Transactions*.	**Derecognition** 65. **The carrying amount of an item of property, plant, and equipment shall be derecognized:** (a) **On disposal; or** (b) **When no future economic benefits or service potential is expected from its use or disposal.** 66. **The gain or loss arising …** 67. However, an entity that, in the course of its activities, routinely provides items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The amount of consideration from the disposal of such assets shall be recognized as revenue in accordance with [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*. [Draft] IPSAS [X] (ED 79) does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories[10].

APPENDIX D: Responses on ED 79 *Accounting for Non-current Assets Held for Sale and Discontinued Operations*

ED 79 SMC: Additional disclosure

The IPSASB decided that there was no public sector specific reason to depart from the measurement requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, the IPSASB considers that, where materially different, disclosures of the fair value of non-current assets classified as held for sale measured at a lower carrying amount would provide useful information to users of financial statements for accountability purposes. The additional proposed disclosure is shown at paragraph 52 of this ED. Do you agree with this disclosure proposal? If not, why not?

New Zealand context

127. We support the IPSASB developing an IPSAS based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. When the IASB decided to develop IFRS 5, it concluded that introducing a classification of assets that are held for sale would substantially improve the information available to users of financial statements about assets to be sold. We have had equivalent requirements for PBEs in New Zealand since 2004 (with the current standard being PBE IFRS 5). Although there can be some implementation challenges, on the whole we consider that it leads to appropriate measurement and disclosure of non-current assets held for sale and discontinued operations.

Disclosure proposal in paragraph 52

128. We do not support the proposed disclosure in paragraph 52.

129. We acknowledge the intention behind the proposed disclosure, as outlined in paragraph BC12. We agree that users would find information about expected inflows useful, particularly if there is a large gap between fair value and carrying amount. We also acknowledge that it would be good practice for an entity proposing to sell assets to obtain information about how much it expects to realise from the sale.

130. However, we think that the costs of (i) obtaining a fair value and (ii) including that information in an audited set of financial statements would outweigh the benefits to users. We make these comments as a jurisdiction where many public sector entities revalue land and buildings and where depreciated replacement cost is often used to estimate the fair value of infrastructure and specialised assets.

131. An entity deciding not to make the proposed disclosure on the grounds that it does not think the fair value is materially different to the carrying amount would need to gather sufficient evidence to support its view. Revaluations are generally performed on a rolling three-year basis, so an entity will not necessarily have current information available at the end of each year. Specialised items of property, plant and equipment are often revalued using depreciated replacement cost (i.e. a cost approach) and there may be no other means of obtaining a fair value. If, in the future, assets are measured at COV this would not be the same as fair value. In all of these cases additional valuations would be required either for an

entity to demonstrate that it did not have to make the proposed disclosure, or to make the disclosure.

132. The proposed disclosure assumes that there will be cases where fair value is materially more than carrying amount. We note that the gap between fair value and carrying value should be constrained by the measurement requirements for property, plant and equipment. IPSAS 17 requires an entity to review the useful life and residual value of an asset at each annual reporting date. If fair value is higher than the carrying amount, it is likely that the residual value should be revised upwards. An upwards revision of the residual value would lead to lower depreciation.

133. We have also thought about the costs and benefits of the proposed disclosure for jurisdictions where the cost model is more commonly used for land and buildings. Under IPSAS 17 (and ED 79.79(d)) entities applying the cost model are encouraged, but not required, to disclose current values when this is materially different from the carrying amount. The proposal in ED 79 would make this disclosure mandatory in respect of assets held for sale. These entities may have larger gaps between the fair value and carrying amounts of assets. The requirements to regularly review the residual value of an asset might reduce the amount of depreciation recognised, but they will not lift the carrying value above the original cost. These entities are less likely to have fair value information available than entities that regularly revalue assets. If they have specialised assets the costs of obtaining valuations could be significant.

Other comments on ED 79

Presentation of revenue and expenses on the face of the financial statements

134. The ED allows entities to disclose the net profit for the discontinued operation, with information on revenue and expenses in the notes. In the public sector the net surplus/deficit for a discontinued operation can be close to zero, despite there being significant gross revenue and expenses. In order to be transparent and ensure that important information is not lost in the notes, some entities in New Zealand have disclosed the revenues and expenses relating to discontinued operations on the face of the statement of financial performance.

135. We suggest that the illustrative examples be expanded to show how a discontinued operation could be presented on the face of the statement of financial performance.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

Actual 2013 $000		Notes	Continuing Activities Actual 2014 $000	Discontinued Activities Actual (refer Note 26) 2014 $000	Total Actual 2014 $000	Main Estimates 2014 $000	Supplementary Estimates 2014 $000	Unaudited Forecast ^ 2015 $000
	INCOME							
310,938	Crown		275,915	31,537	307,452	338,223	307,452	269,510
3,826	Department		2,709	–	2,709	3,876	4,185	3,001
262,684	Other revenue	2	296,511	1,220	297,731	265,022	270,808	296,144
61	Finance income		89	–	89	335	–	–
577,509	**Total income**		**575,224**	**32,757**	**607,981**	**607,456**	**582,445**	**568,655**
	EXPENDITURE							
304,345	Personnel costs	3	288,760	17,349	306,109	284,558	307,109	301,550
27,802	Depreciation and amortisation	10 11	29,104	785	29,889	39,094	26,098	30,612
11,595	Capital charge	4	11,787	234	12,021	15,887	12,600	14,248
201	Finance costs	5	356	–	356	–	–	–
7,381	Restructuring costs		65	71	136	–	–	–
(302)	(Gains)/losses	6	1,907	–	1,907	–	–	–
208,118	Other operating expenses	7	216,116	12,942	229,058	266,755	241,702	219,180
559,140	**Total expenditure**		**548,095**	**31,381**	**579,476**	**606,294**	**587,509**	**565,590**
18,369	**Net surplus/ (deficit)**		**27,129**	**1,376**	**28,505**	**1,162**	**(5,064)**	**3,065**
–	**Other comprehensive income**		**–**	**–**	**–**	**–**	**–**	**–**
18,369	**Total comprehensive income**		**27,129**	**1,376**	**28,505**	**1,162**	**(5,064)**	**3,065**

For information on discontinued activities refer to Note 26

Transfers of infrastructure assets

136. ED 79 could have a significant impact on the measurement of infrastructure assets to be transferred between entities within the public sector. Infrastructure assets could go from being measured using COV to 'fair value less costs to sell', and then back to COV once transferred. The fair value less costs to sell of infrastructure assets is likely to be less than their COV because fair value is an exit, market-based measurement that reflects the perspective of market participants.

137. Although public sector entities in New Zealand have been using a standard based on IFRS 5 for many years, this standard included the pre-IFRS 13 definition of fair value. We anticipate that the fair value less costs to sell of infrastructure assets under ED 79 would be less than the fair value less costs to sell under PBE IFRS 5.

Amendments to IPSAS 1

138. The proposed amendment to IPSAS 1 *Presentation of Financial Statements* paragraph 88 will align the disclosures required by IPSAS 1 with those required by IAS 1 paragraph 54 (j) and (k) but it would result in the new asset and liability disclosures being located at the end of the paragraph. We think that it would be easier for constituents if the IPSASB located the new asset disclosure immediately following the other asset disclosures and the new liability disclosure immediately following the other liability disclosures.

Amendments to IPSAS 14

139. We recommend that the IPSASB amend IPSAS 14 *Events after the Reporting Date* paragraph 16 to align with IAS 10 *Events after the Reporting Period* paragraph 13. IAS 10 paragraph 13 was amended by IFRIC 17 *Distributions of Non-cash Assets to Owners* (2008). The proposed amendment is shown below. The IPSASB is proposing to pick up the other changes to standards made by IFRIC 17 so it would be consistent to pick up this amendment as well.

Dividends or Similar Distributions

...

16. If dividends or similar distributions to owners are declared ~~(i.e., the dividends or similar distributions are appropriately authorised and no longer at the discretion of the entity)~~ after the reporting date but before the financial statements are authorised for issue, the dividends or similar distributions are not recognised as a liability at the reporting date because no obligation exists at that time. Such dividends or similar distributions are disclosed in the notes in accordance with IPSAS 1 *Presentation of Financial Statements.* Dividends and similar distributions do not include a return of capital.

140. We think some of the text in IPSAS 14 paragraph 31(d) could be deleted on the grounds that it is now covered by the proposed new wording in 31(e). The extra examples in IPSAS 14 paragraph 31(d) compared to IAS 10 paragraph 22 would have been useful for constituents in the absence of the IFRS 5 wording. We think the proposed changes to paragraph 31(e) would lead to some duplication (see shaded text).

31 The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

…

(d) Announcing a plan to discontinue an operation or major program, disposing of assets, or settling liabilities attributable to a discontinued operation or major program, or entering into binding agreements to sell such assets or settle such liabilities;

(e) Major purchases ~~and disposals~~ of assets, classification of assets as held for sale in accordance with [draft] IPSAS X (ED 79), *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by other public sector entities;

Amendments to IPSAS 16 (Scope exclusions – surplus housing stock example)

141. Some properties are excluded from the scope of IPSAS 16 *Investment Property*. The last sentence in IPSAS 16 paragraph 13(a) says that surplus housing stock held for sale by a housing department is inventory. ED 79 does not propose to change this statement. In New Zealand, the equivalent paragraph in PBE IPSAS 16 *Investment Property* says that such property is classified as non-current assets held for sale. We think that the IPSASB should change IPSAS 16 paragraph 13(a) to refer to non-current assets held for sale. The rationale is that if the housing stock is classified as a non-current asset before being held for sale then it should be classified as a non-current asset when it is held for sale.