

EXPOSURE DRAFT 76 (ED 76)

CONCEPTUAL FRAMEWORK UPDATE: CHAPTER 7, MEASUREMENT OF ASSETS AND LIABILITIES IN FINANCIAL STATEMENTS

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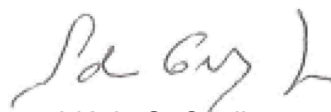
Dear Mr. Ross Smith,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on the IPSASB Exposure Draft ED 76: Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements. CFC, along with its regional arms - Regional Accounting Councils (Conselhos Regionais da Contabilidade - CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Advisory Board for Public Sector Accounting Standards (GA/NBC TSP) of the CFC. From November 1st 2021, the GA/NBC TSP will be replaced by the Permanent Committee for Public Sector Accounting Standards (CP CASP) representing an institutional strengthening of the Public Sector Standards setting process in Brazil.

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,



Idésio S. Coelho
Technical Vice-President
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APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, the Federal District and more than 5,500 municipalities. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements.

In this document, we present the contributions for the Exposure Draft based on a practical approach applicable to our jurisdiction.

In general, we believe that most of the IPSASB propositions of the Measurement project are appropriate, however, there are some improvements proposed in this document. In the next section, we present our answers for the specific matters for comment of the Exposure Draft.

2. Responses to the Specific Matters for Comment

Specific Matter for Comment 1:

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

The CP CASP **agrees** with the three-tier hierarchy proposed in the Exposure Draft, but the texts of EDs 76 and 77 could be clearer to the users of the standards and we believe that there are essential improvements that could be made.

In our point of view, the three-tier hierarchy simplifies and facilitates the understanding of the application of the measurement bases in order to guide an easier application of professional judgment.

However, the connection among models, bases and techniques, cost of services, operational capacity and financial capacity is unclear, especially in relation to the techniques. A better clarity in the connection could result in greater assertiveness in the choice of a basis and/or a technique. These discussions are scattered in EDs 76 and 77, but a clearer connection is essential to understand the application of models, bases and techniques, and it may be necessary to review the texts of EDs 76 (mainly) and 77 in order to adjust it.

In other words, according to ED 76, the selection of measurement bases for assets and liabilities contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess the cost of services, operational capacity and financial capacity. In the three-tier hierarchy proposal, we have 'Models', 'Bases' and 'Techniques'. The 'Bases' and 'Techniques' have a connection to the cost of services, operational capacity, and financial capacity, but it is not clear how these connections work in each type of bases and techniques.

For example, when the document shows the implications of adopting the Current Operational Value of a specified asset, and explains the implications on costs of services, operational capacity and financial capacity, the relationship with the measurement techniques (market, cost or income approaches) is not established. So, the following question can be raised: Is it possible to obtain information about financial capacity based on current operational value?

The paragraph 7.54 of the ED 76 establishes:

"7.54 Current operational value **does not provide information on an asset's ability to generate economic benefits** or the amounts that would be received on its sale. It therefore may not facilitate an assessment of financial capacity".

On the other hand, the ED77 establishes:

"B38. The **income approach** converts future amounts (e.g., cash flows or revenues and expenses) to a single current amount. This approach may be applicable to estimate **the value of an asset measured using the current operational value** when: (a) The use of multiple measurement techniques is appropriate; (b) Information is unavailable to support the application of the market or cost approach".

The possibility of using the income approach as a technique for the Current Operational Value basis seems to be contradictory due to the incompatibility between the Current Operational Value basis and the income approach technique or because the text is not clear. In both possibilities there is a clear need for improvement of the text of the EDs for better understanding of the application of the Conceptual Framework and the Measurement standard by users.

In summary, our suggestion would be to establish clear connections among the cost of services, operational capacity and financial capacity with the three levels of the measurement hierarchy, or at least with the measurement bases and techniques.

If this suggestion is not be accepted, we believe it is still necessary to add examples related to the application of the income approach to the Current Operational Value to make it clear to the users of the standards.

Specific Matter for Comment 2:

Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13, Fair Value Measurement, in the Conceptual Framework?
If not, why not?

The CP CASP **agrees** 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.

The adoption of IFRS 13 definition contributes to reducing the asymmetry between private and public sector financial information, in particular, because many users of public sector accounting information are the same in the private sector, such as suppliers. Also, as it is based on an exit value not specific to the entity and observed in the market, the public sector peculiarities are not relevant for its application.

However, there may be potential issues in defining what an orderly market would be (e.g.: orderly market in unstable situations – “Covid-19 case”). The solution would be to better explain this concept in the standard and predict exception scenarios.

The paragraph 7.41 establishes:

“[...] Where markets are not orderly, it is necessary to use a measurement technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions [...]”.

For instance, it is usually difficult to estimate the price level after exception scenarios, like the COVID pandemic. In this case, the measurement technique could be a solution but, once again, the connection between the objectives of the measurement and the techniques can play a crucial role.

Specific Matter for Comment 3:

Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework?
If not, why not?

The CP CASP **agrees** with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework.

This base will be important for measuring the assets used in the provision of services by the public sector, which are mostly carried out without consideration and on a continuous basis. For decision making purposes, the relevant aspect is the maintenance of these services.

However, we think that an adjustment should be made to the example in paragraph 7.49 of ED76.

“7.49 Current operational value reflects the following characteristics. It:

[...]

Is entity-specific and therefore reflects the economic position of the entity, rather than the perspective of a market participant. For example, the current operational value of a vehicle may be less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases”.

If the Current Operational Value reflects the value of an asset held for rendering service, a parameter of the amount paid for the acquisition of several items in a single transaction rather than one individually does not seem to be an appropriate parameter. Regardless of the value based on a special condition, the intention is to demonstrate the service potential that the item can generate for the entity at a specified time.

Specific Matter for Comment 4:

It is proposed to substitute a general description of value in use (VIU) in both cash-generating and noncash-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?

The CP CASP agrees with the proposed change.

In our view, the ED proposes that Value in Use for a cash-generating asset is the present value of future cash flows and for a non-cash-generating asset it would be the remaining service potential (assessed using measurement techniques). Once again, we believe that the relationship with the concepts of operational capacity, financial capacity and cost of services is deemed necessary. Given measurement objectives is related to proposed bases, wouldn't it be necessary to have a detailed explanation of the techniques application to each measurement basis, especially in the ED 76? (please, see previous responses of this ED).

Specific Matter for Comment 5:

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?

The CP CASP agrees with the proposed deletion, with no objection.

Specific Matter for Comment 6:

The IPSASB considers that the retention of certain measurement bases that were in the 2014 Conceptual Framework is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework?

- Net selling price—for assets
- Cost of release—for liabilities
- Assumption price—for liabilities

If not, which would you retain and why?

The CP CASP **agrees** with the proposed deletion with no objection.

Specific Matter for Comment 7:

Are there any other issues relating to Chapter 7: Measurement of Asset and Liabilities in Financial Statements of the Conceptual Framework that you would like to highlight?

The CP CASP **reinforces** the need for a review of the structure of ED 76 based on the previous responses, especially regarding the necessary clarification of the relationship between measurement bases e measurement techniques and the connection between measurement objectives and measurement techniques.