

Responses to IPSASB ED 77: Measurement  
(April, 2021; Comments due: October 25, 2021)

## **EXPOSURE DRAFT 77 (ED 77)**

### **MEASUREMENT**

*The Program and Technical Director*

*International Public Sector Accounting Standards Board (IPSASB)*

*International Federation of Accountants*

*277 Wellington Street West, 6<sup>th</sup> floor*

*Toronto, Ontario M5V 3H2 CANADA*

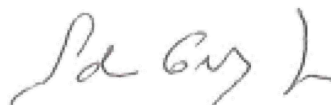
Brasília, Brazil  
October 25, 2021

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 77: Measurement. 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 1<sup>st</sup> 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 clarifications of any matters in this submission, please contact: [tecnica@cfc.org.br](mailto:tecnica@cfc.org.br).



**Idésio S. Coelho**  
*Technical Vice-President*  
Conselho Federal de Contabilidade

## **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 appropriated, 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:

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.

The CP CASP **agrees** with the proposal that an item that qualifies for recognition shall be initially measured at its transaction price, considering the specified exceptions, with no objections.

### Specific Matter for Comment 2:

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.

The CP CASP **partially agrees** with the proposal. We believe that initially, an entity could choose between historical cost and current value, but if an entity chooses the current value as the model, it must choose between fair value or current operational value for assets, and fair value or fulfilment cost for liabilities.

In our responses of the ED76, we recommend clarifying the relationship between the measurement objectives and the bases/techniques, which is essential to understand the accounting policy choices.

### Specific Matter for Comment 3:

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

The CP CASP **partially agrees** with the proposed guidance that historical cost is appropriate for application by public sector entities.

We believe, however, that is necessary to include specific examples from the public sector to better guide its application.

We also believe that it would be necessary to **include the definition of deemed cost in ED77**, as it is not included in the applicable definitions of the standard nor in the ED76 definitions.

**Specific Matter for Comment 4:**

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.

The CP CASP **agrees** that no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement.

However, we reinforce that it would be necessary to **include the definition of deemed cost in ED77**, as it is not included in the applicable definitions of the standard nor in the ED76 definitions (please, see SMC 3 response).

**Specific Matter for Comment 5:**

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 more appropriate for the public sector, and why.

The CP CASP **agrees** that the current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date. We believe, however, that it would be necessary to clarify if an asset used to achieve the entity's service delivery objectives is a resource with service potential and not capacity to generate economic benefits and, if so, the objectives of the measurement bases should be to support the assessment of the cost of service and/or operational capacity.

In general, the relationship among measurement objectives, measurement bases and techniques and if an asset has service potential or capacity to generate economic benefits should be clarified in ED77 as a whole.

**Specific Matter for Comment 6:**

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.

The CP CASP **does not agree** with the proposed definition because it is generic and does not specify what the value is, unlike the historical cost and fair value.

A definition shall explain the meaning of a term, but in our view, it is not clear what the meaning of current operational value is. Considering market approach, cost approach and income approach as possible measurement techniques, the value could be the amount to replace an asset or the cash flows generated by an asset. So, it is difficult to understand what the measurement basis would be.

**Specific Matter for Comment 7:**

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.

The CP CASP **partially agrees** that 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.

The ED 77 establishes that the cost of a substitute asset of comparable utility is measured as the cost of a modern equivalent asset where the cost approach is used—that is, a notional asset providing an equivalent service as the existing asset while using the latest technology available. This seems to be the best and unique requirement to be observed in the case of the notional replacement of the asset measured at current operational value. We understand that the location where the asset is situated or used is not relevant, assuming that current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date.

The same location may or may not be relevant because it depends on the characteristics of the asset. The relevance may be different, for example, for movable and immovable asset. In the case of the immovable asset, as a building, the location is a relevant variable, but the relevance may not be the same for movable asset, as equipment.

Assuming as an example a field hospital whose change in location of the plant and equipment is possible in accordance with the demand and observing the health public policy. The public service is provided in a unique way and without similarity with the private sector and the service potential is clearly measurable. In this example, the current operational value does not depend on the location of plant and equipment as the service may continue to be delivered in other locations and the notional replacement does not depend on the location in which service is provided and the asset is situated.

To support the final decision, we suggest that the IPSASB consider other examples in various jurisdictions in which the restriction of the location regarding the existing asset is situated or used for measuring under the current operational value does not apply. With this restriction, we understand that the Standard can considerably limit its application in an unprecedented situation considering the reality of multiple jurisdictions.

**Specific Matter for Comment 8:**

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 CP CASP **does not agree** that the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis. We agree with the alternative view (Av.5 to Av.12).

A technique should be applied to allow the assessment of the operational capacity and cost of services, and not the assessment of the financial capacity (income) for assets used in the public. Where an entity decides to use an asset to achieve its service delivery objectives, it does not operate in commercial terms. So, the fee received by an entity does not make the income approach applicable and could be considered as the recovery of operating costs. Even if the fee is enough to cover all costs and generate a relevant surplus for the public sector entity, the measurement technique should continue to reflect the amount to replace an asset (market or cost approaches), since the essential activity is the service delivery and not to generate income. In principle, in our jurisdiction, we were unable to obtain examples where a public sector asset is measured using the income technique.

Under the ED77 definition, current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date. The expression 'service delivery objectives' seems to be incompatible with the income approach.

The alternative view presents the risk that assets will be measured at inappropriately low amounts, making it difficult for users to identify the remaining service potential for assets held for operational purposes and the income approach seems not to be appropriate in this case. We agree with this view.

We also agree with the alternative definition of Current Operational Value, as ‘the cost to **replace the service potential** embodied in an asset at the measurement date’. In our view, the term ‘Replace the service potential’ is clearer than ‘**achieve the entity’s service delivery objectives**’. ‘Service delivery objectives’ refer to the assessment of public policies or effectiveness in the service delivery, and these issues are not directly related to the financial statements of the public sector entities, although provide subsidies for this assessment. The expression ‘service potential’ is consolidated in the IPSASB literature and is better suited to the definition of current operational value, allowing a better understanding by IPSAS users.

Alternatively, if the IPSASB decides to maintain the income approach as a technique under the current operational value in the measurement hierarchy, it would be necessary to provide more examples on practical applicability of the income technique to promote the understanding of the Standard’s users. The current text of ED77 does not allow us to be sure about the applicability.

#### Specific Matter for Comment 9:

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

The CP CASP **agrees** with the guidance on fair value aligned with IFRS 13 as it is appropriate for application by public sector entities, but we believe that there are necessary improvements to be made in the ED77.

The Fair Value in IPSAS mainly applies to the standards related to investment property, PP&E, financial instruments and others, and it is mainly used in the public sector for information on financial capacity and not operational capacity or cost of services. It is understood, therefore, that there would be no objection to the use of fair value in line with the standards applicable to the private sector (IFRS 13) with minor adaptations to close possible gaps in the public sector.

However, we believe that ED77 does not adequately indicate the criteria for separating cash-generating activities from operating activities with specific characteristics of the public sector, and how to relate cash and non-cash generating assets with operational capacity and financial capacity. For a better understanding of the standard, it is suggested that ED77 improve the guidance about these two issues, as it practically influences all decisions about measurement criteria.

#### Specific Matter for Comment 10:

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.

The CP CASP **partially agrees** that the guidance on cost of fulfillment, aligned with the existing principles in the Conceptual Framework and throughout IPSAS, is appropriate for application by public sector entities. We, however, believe that some clarification is necessary as mentioned below.

Since there are concepts developed on the basis of the cost of fulfillment in the Conceptual Framework, it seems appropriate that the guidance of cost of fulfillment should be driven from the perspective of the

Conceptual Framework, expanding the related principles and developing guidance on how to apply it (as proposed in ED77).

We highlight, however, that it is necessary to confirm if the income approach is applicable in the measurement of liabilities under the cost of fulfilment. According to the ED77 guidance, the objective of using a measurement technique is to estimate the cost that the entity will incur in fulfilling the obligations represented by the liability at the measurement date under current market conditions, and the most commonly used measurement approach when measuring the cost of fulfilment is the income approach. Income approach is a measurement technique that converts future amounts (e.g., cash flows or revenue and expenses) to a single current (i.e., discounted) amount.

In our view, income approach is linked to the generation of economic benefits by an entity, but the cost of fulfilment is related to the settlement of an obligation in the least costly manner. Thus, even though the settlement of an obligation may occur in order to increase the financial performance of a public sector entity in the least costly manner, the main issue is the reduction of costs since the liabilities, in essence, are incurred in the service delivery without the intention to generate cash inflows or revenue.

According to the Conceptual Framework, a liability is “a present obligation of the entity for an outflow of resources that results from a past event”. The measure of a liability shall reflect the value of the outflow of resources. Income, however, is related to increases in assets, or decreases in liabilities, that result in increases in equity. In the case of a liability, an increase in equity is only expected where market condition changes and the increase is related to the value variation and not the total amount of the liability. Therefore, we believe that the use of the income approach seems inappropriate to measure a liability.

If only the definition of the income approach as the present value of an obligation is considered, this present value can be related to the reduction of costs and not to income. This misunderstanding may be originated from an inadequate interpretation that the income approach has a similar concept as present value. The proposed definitions of the ED77 seems to generate this confusion:

6. (definitions paragraph): Income approach is a measurement technique that **converts future amounts** (e.g., cash flows or revenue and expenses) **to a single current (i.e., discounted) amount**.

B38 (a): Present value (i.e., an application of the income approach) is a tool used to link **future amounts** (e.g., cash flows or values) to a **present amount using a discount rate**.

ED77 may be generating an incorrect interpretation that the income approach is the same as present value. Considering the specificities of public sector mainly related to non-cash generating activities, the recommendation would be to define the income approach, especially regarding to the types of future amounts that should be considered in this approach.

We also recommend the consideration of market approach and cost approach as the techniques applicable to measure cost of fulfilment.

However, if the IPSASB decide to retain the income approach as a technique to measure cost of fulfillment, we suggest the inclusion of further examples of applying the income approach to the cost of fulfilment, and an improvement to the text of ED77, providing further application examples.

#### Specific Matter for Comment 11:

Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77?

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

The CP CASP **agrees** that measurement disclosure requirements should be included in the IPSAS to which the asset or liability relate to and not in ED 77.

The disclosure in the Notes of the measurement criteria follows peculiarities of the set of assets and liabilities (or "stand-alone" assets and liabilities) in which the recognition, measurement and disclosure criteria are set by the standards, with the criteria defined for this measurement taking into account the qualitative characteristic and the usefulness of the information provided to the user.

It is necessary to review the current IPSAS and consider, in the development of upcoming IPSAS, the general elements established by EDs76 and 77 from a disclosure point of view (ED 77 proposes this revision, but care must be taken not to leave gaps).

**Specific Matter for Comment 12:**

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.

The CP CASP understands that there are no measurement disclosure requirements that apply across IPSAS that should be included in ED 77.

However, it may be necessary to establish minimum disclosure requirements regarding the measurement techniques that should be disclosed (e.g., present value parameters).

The ED 77 could establish the requirements to the "minimum information" ("general" in a very reduced way, and more focused on measurement bases, techniques and tools) not establishing what would be the mandatory disclosures.

**Specific Matter for Comment 13:**

Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value.  
If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.

The CP CASP **agrees** as long there is "consistency" related to minimum disclosure requirements and not a standardization of the items that should be disclosed (please, see our comments on the SMC 12 about minimum information requirements).

The proposal of the current value model disclosure requirements facilitates the understanding of the models, bases and measurement techniques when it is consistent across the IPSAS, but attention must be paid to the peculiarities of each group of assets and liabilities, avoiding the standardization above the usefulness of information to the user.

**Specific Matter for Comment 14:**

Do you agree with the proposal disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSAS.  
If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model



The CP CASP **agrees** 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.

We understand that the reasons explained by the IPSASB in BCs 68 to 70 are correct and valid.

**Specific Matter for Comment 15:**

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

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

The CP CASP **agrees** that fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy.

We understand that this allows the user of the financial statements to know which inputs were used to obtain the fair value.

The items to be disclosed related to the inputs of fair value measurement would be one of the “minimum requirements” for disclosure that could be included in the Standard derived from ED77 (see the previous comments about the minimum requirements disclosure approach).