

Quito, November 2024

R-05-11-IPSAS

Mr. Ian Carruthers
Chairman International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Subject: Comment letter on Draft Exposure 90, “Amendments to IPSAS as a Result of the Application of IPSAS 46 – Measurement”

For the, we are pleased to provide comments on Draft Exposure 90, “Amendments to IPSAS as a Result of the Application of IPSAS 46 – Measurement”., issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).

Specific topic for comment 1:

Do you agree that current operational value is an applicable current value measurement basis for assets in the scope of IPSAS 12, Inventories, and IPSAS 31, Intangible Assets, as proposed in Part 1 of this ED?

If you do not agree please explain your reasoning.

The ED includes an Alternative View on adding current operational value as an additional measurement basis to the current value model in IPSAS 31.

Answer comment 1:

If we agree with the amendment to inventories under IPSAS 12, but are asked to assess the risk associated with the amendment to IAS 38, which aligns with IPSAS 31, we must consider that these amendments aim to improve the representation of intangible assets, especially those generated internally, such as those related to technology and innovation. While offering benefits in clarity and transparency, the main risk is the added complexity for entities in identifying, measuring, and disclosing such assets. For organizations managing inventories, distinguishing between intangible assets and technology-related inventories could increase the risk of misclassification or misvaluation. However, if we agree with the amendments to inventories, which also seek to enhance the accuracy of resource representation in financial statements, the amendments to IAS 38 can be seen as a positive development. It is essential, though, for entities to implement strong controls to prevent errors in classification and disclosure, ensuring proper application of the new standards and reducing the risk of confusion between inventories and intangible assets.

Specific topic for comment 2:

Part 1 of this ED proposes that current operational value is an applicable subsequent current value measurement basis for right-of-use assets (i.e., assets in scope of IPSAS 43, Leases).

(a) Do you agree that current operational value can be applied to the subsequent measurement of right-of-use assets? If you do not agree, please explain your reasoning.

(b) If you agree with (a), do you agree that current operational value can be applied using the current guidance in IPSAS 46 (without the income approach as one of its measurement techniques)? If you do not agree please explain your reasoning.

Answer comment 2:

- A. I agree that current operational value can be applied to the subsequent measurement of right-of-use assets, as it more accurately reflects the economic utility these assets provide within the operational context of the public sector, especially when used for delivering essential services. This approach allows for the consideration of key factors such as the expected use of the asset in the entity's operations, beyond just its market value. For leased assets, it is essential to evaluate not only contractual terms but also renewal or termination options, ensuring that the current operational value properly captures the benefits the asset will continue to generate during its expected use.
- B. I agree that current operational value can be applied using the guidance in IPSAS 46, excluding the income approach as a measurement technique. Since current operational value focuses on the value that assets generate in ongoing operations, the income approach, which is based on future revenue flows generated by the asset, is not relevant in this context. Instead, other measurement techniques, such as depreciated replacement cost or optimized value in use, are more appropriate as they better reflect the asset's ability to contribute to public service rather than its potential to generate future income.

SPECIFIC MATTER FOR COMMENT 3:

Do you agree with the replacement of value in use of a non-cash-generating asset by current operational value in the definition of recoverable service amount in IPSAS 21, Impairment of Non-Cash Generating Assets, as proposed in Part 2 of this ED? Recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its current operational value.

If you do not agree please explain your reasoning.

Answer comment 3:

I do not fully agree with substituting the value in use of a non-cash-generating asset with current operational value in the definition of recoverable service amount in IPSAS 21, as proposed in Part 2 of this ED. While current operational value reflects the utility of assets in day-to-day public sector operations, value in use remains essential for evaluating non-cash-generating assets, as it considers future cash flows the asset could generate over its useful life. Current operational value focuses on immediate operational benefits but may not be suitable for assets out of service or with potential future value if reused, as it does not capture residual value or future economic benefits. On the other hand, value in use accounts for both the asset's current use and its ability to generate future value, which is critical in the public sector, where assets may not directly generate revenue but provide long-term essential services. For out-of-service assets, value in use offers a more accurate measure of the recoverable amount by reflecting future benefit flows and potential residual value.



Please feel free to contact us in case any further clarification in this regard is required.

Regards,

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