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To : Ian Carruthers, Chair, International Public Sector Accounting Standards Board (IPSAS Board)

From : Director, NATO Office of Resources/Head of Financial Reporting Policy

Cc : Chair, Working Group of Financial Controllers
Chair, Accounting Working Group

Dear Mr Carruthers,

Subject: ***Comments on the Exposure Draft 90 – Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement***

I would like to thank the IPSAS Board for the opportunity comment on the Exposure Draft 90, Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement, in our role as observer. In this respect, please find attached our comments, for your consideration.

The letter reflects the comments of the subject matter experts received from the Accounting Working Group (AWG) and the Working Group of Financial Controllers (WGFC), representing the different NATO reporting entities.

Yours sincerely,
(Signed) Nathalie MATTHIJS

Director
NATO Office of Resources



Comments from NATO (AWG and WGFC)

AMENDMENTS: PART 1 – APPLICABILITY OF CURRENT OPERATIONAL VALUE IN IPSAS

Amendments to IPSAS 12, *Inventories*

Current Value Measurement

Page 12; paragraph 50A. (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”.*

Comment 1: Please consider adding illustrative examples in brackets in terms of unobservable inputs or in a footnote, with their definition.

Page 14; paragraph 50D. *“The disaggregation may need to be greater for current operational value measurements estimated using observable inputs or fair value measurements categorized within Level 3 of the fair value hierarchy, because those measurements have a greater degree of uncertainty and subjectivity”.*

Comment 2: The “may need to be greater” can be rather vague, please consider further clarification in the ED. In addition, the users would benefit from further guidelines on this paragraph.

Page 14; paragraph 50D. *“If another IPSAS specifies the disaggregation for an inventory, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph”.*

Comment 3: Please consider mentioning which other IPSASs.

Page 14; paragraph 50E. *“For each class of inventories not measured at current operational value or fair value in the statement of financial position, but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by para 50C(b), (c) and (g)”.*

Comment 4: If current operational value/fair value is not the measurement basis, please mention the possible reasons why an entity would disclose current operational value/fair value.

Amendments to IPSAS 31, *Intangible Assets*

Subsequent Measurement

Page 20; paragraph 74B. *“Revaluations should be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its current value” ...*

Comment 6: The users would find it useful to elaborate on the concept of ‘materiality’ used above.

Page 20; paragraph 74B. ... *“For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market”.*

Comment 7: Please provide illustrative examples on how to measure fair value if there is no active market available.

Page 20; paragraph 78. *“The frequency of revaluations depends on the volatility of the current fair-values of the intangible assets. If the current fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in current fair, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in current fair value”.*

Comment 8: In our view, this is difficult to assess for assets held for military purposes. In addition, significant judgment may have to be used in the above paragraph.

Page 20; paragraphs 80 and 82

Comment 9: As both paragraphs 80 and 82 are applicable, it would be clearer if they were moved after the paragraph 74B.

Disclosure

Page 22; paragraph 123D. *“For the purposes of current value measurement disclosures an entity may decide that a greater disaggregation of the classes of intangible assets (as determined in paragraph 71) is required on the basis of...”*

Comment 10: This sentence is rather vague, please consider including an illustrative example.

Page 22; paragraph 123E. *“For each class of intangible assets not measured at historical cost/fair value in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 123C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational fair value measurements estimated using unobservable inputs, required by*

paragraph 123C(c). For such intangible assets, an entity does not need to provide the other disclosures required by this Standard.”

Comment 11: Please consider simplifying the above paragraph, it could be difficult for the reader to follow.

Pages 32-33, paragraphs BC94-BC97, *Applicability of Current Operational Value*:

Comment 12: We do not support the conclusion that current operational value is an applicable measurement basis for the initial measurement for the determination of deemed costs for inventories (IPSAS 12) and intangible assets acquired through a non-exchange transaction. The main reason relates to the difficulty to determine supportable assumptions for the assessment of the expected future economic benefits or service potential of defence sector assets. In this respect, additional guidance should be provided for deemed cost in the absence of historical cost, market value, or current operational value. In addition, we consider that it would be useful to include illustrative examples of determination of the current operational value for the defence sector. There is also a difference between service potential during peacetime as compared to war: therefore, it is very difficult to assess the service potential based on reasonable and supportable assumptions. There might be no service potential in times of peace and in that case, the current operational value can be zero, however in times of war this would change. Considering this, we would need/request/ask for your support on how to deal with the above complexities in terms of current operational value. For the same reason, we do not support applying current operational value exclusively for the subsequent measurement for inventories held for their operational capacity.

AMENDMENTS: PART 2 – LIMITED SCOPE UPDATE TO IPSAS 21, IMPAIRMENT OF NON-CASH GENERATING ASSETS

Amendments to IPSAS 21, *Impairment Non-Cash-Generation Assets*

Scope

Page 35, paragraph 10A. (b) *“If the disposal costs are not negligible, the fair value less costs to sell of the revaluated non-cash-generating asset is necessarily less than its fair value. Therefore, the revalued non-cash-generating asset will be impaired if its ~~value in use~~ current operational value is less than its revaluated amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the no-cash-generating asset may be impaired.”*

Comment 13: We understand that the value in use is replaced by ‘current operational value’; however, in the case of military assets it is not always possible to apply COV, as sometimes COV cannot be determined.

Measuring Recoverable Service Amount

Page 37, paragraph 39D. *“Current operational value is likely to be relevant to the determination of recoverable service amount for many assets held for the delivery of services, especially assets which are specialized, and where there are restrictions on an alternative use to that for which the asset is currently deployed.”*

Comment 14: This paragraph refers to current operational value likely to be relevant to the determination of recoverable service amount for many assets held for the delivery of services, especially assets which are specialized, and where there are restrictions on an alternative use to that for which the asset is currently deployed. Assets in the defence sector are often specialized and there are restrictions on alternative use; therefore, for these assets current operational value is not applicable.

AMENDMENTS: PART 3 – DEFINITION OF ACCOUNTING ESTIMATES (IPSAS 3)

Amendments to IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Implementation Guidance

Pages 63-64; paragraphs IG14–IG17.

Comment 15: ‘Prospective Application of a Change in Accounting Policy when Retrospective Application is not Practicable’ has been deleted. The users may benefit from understanding the reason behind this deletion.

AMENDMENTS: PART 4 – IMPROVEMENTS TO CURRENT VALUE MEASUREMENT DISCLOSURES

Amendments to IPSAS 16, *Investment Property*

Disclosure

Page 80; paragraph 89C. (c) *“For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable*

inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement”.

Comment 16: The difference between Level 3 of the fair value hierarchy and fair value estimates using unobservable inputs is unclear, especially as Level 3 inputs are unobservable inputs.

Amendments to IPSAS 27, Agriculture

Disclosure

Page 83; paragraph 46C. c) *“For recurring and non-recurring fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the fair value measurement. If there has been a change in measurement technique (e.g. changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for fair value measurements estimated using unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement”.*

Same comment as comment 16.

Alternative View

Page 95:

Comment 17: We do not support applying the current operational value for the subsequent measurement of intangible assets held for operational use, due to the absence of observable active market prices and the difficulties to assess the expected future economic benefits or service potential bases on supportable assumptions.

The same applies to the use the deemed costs, cost based on the current operational value and in the absence of observable active market prices for intangible assets acquired through a non-exchange transaction in the public defence sector.

As a result, we support the Alternative View, due to inconsistent approach to subsequent measurement of intangible assets held for operational capacity and for their financial capacity, as well as challenges and uncertainties inherent in the measurement of internally generated intangible assets.