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Paris, 1 March 2013

M. Roy Farthing
Vice Chairman of the IVSC
Professional Board
International Valuation Standards
Council
68 Lombard Street
London EC3V 9LJ
United Kingdom

Re: Exposure Draft on Valuations of specialised public service assets

Dear M. Farthing, ,

Please find herewith the reply of the French Public Sector Accounting Standards Council ("Conseil de normalisation des comptes publics"- CNOCP) to the above Exposure Draft.

To begin with, the CNOCP wishes to stress the relevance of the process initiated by the International Valuation Standards Council (IVSC). Moreover, we noted that the IVSC is aware of the current work of the IPSAS Board on public sector conceptual framework that includes a review of the way in which public sector assets and liabilities should be measured. Finally, we specify that the CNOCP, as public-sector accounting standard-setter, follows with attention the work of the IPSAS Board on these matters, and wishes to privilege for accounting purposes historical cost as much as it can.

As specified above, the CNOCP is the French public-sector accounting standard-setter. Therefore this response is in this field of competence and not from the strict point of view of the evaluator. Also the responses made by the Council apply only to financial statements. A selection of valuation methods is presented in relation to the general objectives of the financial statements. Moreover, these comments are inspired by the consideration of the specificities of the public sector, namely the non-for-profit activity, the constitutional decision making process as opposed to the rule of contract in the private sector, the lack of connectivity between resources and expenses, the importance of transfers, the fact that public authorities are not "available-for-sale", etc. This does not preclude the need to adopt whenever possible, the same standards as the private sector, which is required in France by law.

Finally, the CNOCP wishes to highlight the need for the IVSC to clarify the difference between its guidelines and the standards proposed by the IPSAS Board.

Yours sincerely,

Michel Prada

ANNEX

RESPONSES TO THE QUESTIONS OF THE EXPOSURE DRAFT

QUESTION 1

Some of the challenges that arise in valuing specialised public service assets result from similar assets being cash-generating when owned by a for-profit entity and non-cash-generating when owned by a not-for-profit or public benefit entity. The Board's initial view is that it is the characteristics of an asset and the service it provides that are relevant to its valuation. Others argue that the status of the owner can be a significant factor that impacts on the value of an asset as in many cases there is circularity between the for-profit or not-for-profit status of the owning entity and the cash-generating status of the assets.

Which of these views do you support?

To begin with, the CNOCP considers that this is a legitimate question in the context of valuation process. Moreover, the Council understands that the objectives of the evaluators may differ from the general objectives of financial statements and that the Board suggests relating valuation considerations to the nature of the asset rather than the legal status of the owner.

However, the CNOCP wishes to highlight the ambiguity of the question (and of the document submitted for comments) since the guidelines proposed in the context of valuation refer to the work of the IPSAS Board, which is an international public-sector accounting standard-setter.

As public-sector accounting standard-setter, the Council considers that the status of the owner can be a significant factor that impacts on the value of an asset. Indeed the specificities of the public sector, especially due to the fact that there is no active management of the assets held solely for operating, involve that methods of valuation of assets may differ from those used in the private sector.

Finally the CNOCP wishes to privilege for accounting purposes historical cost as much as it can (see Question 4).

QUESTION 2

The draft contrasts the concepts of market value and investment value (as defined in the IVS Framework and this draft). Market value should give the same result as fair value as defined in IFRS 13 as the differences between the two do not affect specialised public service assets. It is therefore frequently used as a basis when specialised public service assets are valued for financial reporting. Investment value is specific to the owner and can reflect criteria that would either not be relevant or available to market participants, such as measures relating to the public benefit created by or accruing to the asset.

Do you consider that these distinctions are clearly explained?

The Exposure Draft presents successively the different possible measurement bases and approaches. It describes the main advantages and limits of these different approaches. The CNOCP agrees with these presentations.

The CNOCP considers however that these presentations unbalanced and that the concept of investment value should be developed using examples.

Moreover, the CNOCP does not understand why the two approaches are opposed. We therefore question whether investment value should be mentioned; even more because the paragraphs about categories suggest the cost approach (versus the market approach) and not investment value.

Finally the Council believes that the model of "market value" is not appropriate for all public-sector assets. He recalls that the public sector is characterised by mainly non-market nature of its activity, "infinite" life and the existence of specific assets. So the model of "market value" is inherently unsuited. In fact, the "market value" method which has its source in current standards applicable to private companies must be restricted to areas where there are no specifics.

QUESTION 3

The proposed guidance makes a distinction between measuring the value of the asset and measuring the social value, i.e. the impact of that asset on either other assets or the wider community. It excludes the latter from the scope of the proposed TIP on the grounds that social value of an asset is not directly correlated with the value of the owner's interest in that asset.

a) *Have you had experience of the impact that a specialised public service asset has on the value of other assets or the wider community being used as a measure of the value of that asset?*
b) *If so, please explain the purpose for which the valuation was required.*

The CNOCP has no experience of the direct impact that a specialised public service asset has on the value of other assets or the wider community. Nevertheless, it seems obvious that any improvement of a public service or of a specialised public service asset has an indirect impact on the value of other assets or the wider community. However, the Council has not yet identified at this stage an entity that took into account this indirect impact in the evaluation of specialised public service asset.

QUESTION 4

Many specialised public service assets such as roads, town squares, footpaths, public parks and gardens, informal recreational areas, etc. are assets for which public users make no direct payment for access or use. Some regard such "assets" as being incapable of reliable measurement because:

i) *neither the historic nor the current cost normally has any relevance or correlation to a measureable benefit to the owner and*
ii) *there are no actual or implied revenues, such as a reliable proxy or cost saving, that can be attributed the asset.*

a) Do you consider that all specialised public service assets are capable of reliable valuation, or that some such assets should be declared as incapable or unsuitable for valuation?

b) If you have experience of valuing assets such as those identified in this question, please describe the type of asset valued and briefly describe the method or methods used.

The CNOCP supports a combination of measurement bases: **historical cost (method to be preferred)**, market value and replacement cost.

Indeed the rule for the initial recognition of an asset must be the **historical cost** method. However, according to the type of elements to be measured other bases maybe used.

The historical cost basis leads to measurement at acquisition cost at the date of initial recognition by an entity. In France, its use is widespread in the accounts of Central Government, public establishments, local authorities and social security organisations, who manage their assets over the long term. This basis is appropriate for the revenue and expense-led approach. What is more, it has the advantage of being simple and meets the objectives of users of financial statements.

However, Central Government and certain public establishment have specific characteristics with regard to the lasting nature of their actions and the nature of their assets, so that for these entities acquisition cost is either unknown or not significant. **In exceptional or marginal cases** where it is **not possible to use historical cost**, because it is unknown or out-dated, market value may be used, particularly if the asset is actively managed. In order to measure assets on this basis, reference must be made to transactions in assets of a similar nature. In the absence of a liquid market for such transactions, estimations are authorised by accounting standards.

Lastly, **in certain specific cases,** replacement cost may be used as a last resort although; in some cases the assets and liabilities of Central Government are by nature irreplaceable. As an illustration, depreciated replacement cost is used in the accounts of Central Government to measure road infrastructures, the acquisition cost of which is unknown and for which there is no recognised or identifiable market value.

Moreover, for very specific cases, symbolic or inclusive value may be used. That is the case for natural areas or heritage assets.

QUESTION 5

It is proposed that the current Annexe to IVS 230 Historic Property be included in this TIP and deleted from the IVS. The rationale is that many historic and heritage properties are used for providing a public service. The historic features are a form of specialism as they can often limit or constrain the use of these properties. As a consequence it is felt that many of the valuation considerations that apply to specialised public service assets also apply to historic and heritage properties and that it is more appropriate to present the guidance here than as an adjunct to IVS 230.

Do you agree with this proposal?

The CNOCP is in favour of a specific standard for dealing with historic property (the term of heritage assets is used in the Central Government Accounting Standards Manual that contains a specific standard for heritage assets), taking into account the characteristics of these assets that set them apart from intangible and tangible assets. The rationale is that heritage assets have specific characteristics which cannot be compared to specialised public service assets, even those that have features limiting their use.

The French standard places emphasis on the symbolic character of the value of heritage assets, whether such value results from recording the asset for a token euro or is measured under the conditions described in the standard.

This symbolic character of the value of heritage assets, for which they are considered inalienable, is reflected by ruling out recognition at market value and by not changing this value once it is initially recognised.

The accounting methods for a heritage asset differ depending on its situation:

- Starting from 1st January 2013, heritage assets that will be acquired for valuable consideration are recognised at **acquisition cost**. Assets that will be received at no cost (gifts, payments in kind, or legacies) are recognised at the so-called "tax" value or at the expert appraisal value.

- On the same date, assets already controlled but never recognised are recognised at the value of a **token euro**.

At the reporting date, because of their symbolic character, heritage assets are measured in the public-sector entity's financial statements for the same amount as on initial recognition. This provision means that heritage assets are not revalued at the reporting date and are neither depreciated nor impaired. In the event of a substantial, partial change to a heritage asset, a disclosure is provided in the notes.

The work completed on a heritage asset is treated differently than the main asset. This distinction makes it possible to deal with subsequent expenditures according to the reasoning of ordinary law, without interfering with the accounting treatment applicable to the heritage assets themselves ("underlying" assets).

QUESTION6

Paragraph 36 of the draft proposes that four principal categories of specialised public service assets can be identified, and provides examples of types of asset that fall within each of these categories.

a) Do you agree with the categorisation proposed?

b) Do you find the categorisation and examples to be helpful?

c) Do you consider that there are either any significant omissions or asset types that should be excluded?

The Council finds the categorisation proposed interesting because of the grouping by nature of service provided.

But the CNOCP is more in favour of a categorisation based on the characteristics of the specialised public service assets. For example, the Central Government Accounting Standards Manual suggests categorising the assets according to the criteria (in the order):

Does the asset have a determinable useful life?

Does a directly observable market value exist for this asset (i.e. non-specialised assets)?

Does this asset offer an identifiable service potential?

The Council considers that the inter-departmental transfer must be excluded. Indeed the Central Government Accounting Standards Manual contains specific standards for transfer between public sector entities for which the net book value must be considered.

Moreover, the CNOCP bethinks that the provisions presented in this Exposure Draft relating to valuations of specialised public service assets do not necessarily apply for financial statements of public sector entities.