

## Agenda Item 11: Public Sector Measurement

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IPSASB Meeting

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Luxembourg, Luxembourg

## Topic 1 Project issues and subcomponents

Task Force reviewed IPSASB responses to questionnaire on project priorities (see item 11.3.1) and noted that:

- Proposed new items are covered by existing work streams
- Majority of issues have support
- Respondents had conflicting views on Issues 4 and 5 and the Task Force view is that:
  - Issue 4, *Reduction of differences between IFRS and IPSAS measurement* should not be a primary focus for this project
  - Issue 5, *Reduction of unnecessary differences between IPSAS and GFS reporting guidelines* is important because it is a public sector specific concern

## Topic 1 Project issues and subcomponents

Do you agree with Task Force recommendations that:

- a) No new issues or subcomponents should be added;
- b) The project should not aim to address Issue 4, *Reduction of differences between IFRS measurement and IPSAS measurement*, and
- c) Issue 5, *Reduction of unnecessary differences between IPSAS and GFS reporting guidelines*, should remain an important focus?

## Topic 2 Project timetable

**Question** Do you agree with project timetable (Item 11.3.2)?

Information:

- Task Force agreed the timetable, with one change (transaction costs discussed at this meeting)
- Timetable reflects the following ideas:
  - Should be one consultation on measurement bases
  - A consultation paper will be required
  - Disclosures and implementation guidance depend on IPSASB's approach to measurement bases

## Topic 3 What are transaction costs?

- Costs directly attributable to the purchase (or sale) of an asset or liability, but distinct from the asset's or liability's purchase (or sale) price
- For example, professional fees for legal services, transfer taxes and handling costs

## Topic 3 Why are transaction costs important for measurement?

Paragraph 5 gives two reasons:

Measurement in IPSAS should be clear about:

- a) Whether transaction costs impact on the monetary value assigned to an asset or liability at initial and subsequent measurement; and
- b) Those costs that are included in transaction costs.

### *Question for IPSASB*

- Does paragraph 5 cover all the reasons why transaction costs are important for IPSAS measurement?

## Topic 3 Transaction costs (cont'd)

- Conceptual Framework: Transaction costs are one of two differences that distinguish entry prices from exit prices
- *Recommendation:* Consider transaction costs in the review of IPSAS measurement bases.
  - Connection between measurement bases and transaction costs
  - Task Force will review IPSAS measurement bases and consider transaction costs
- **Decision:** IPSASB asked to agree that consideration of transaction costs be included as part of the Task Force's review of IPSAS measurement bases

## Topic 4 Borrowing costs

- *Borrowing costs*: Interest, other expenses incurred in connection with borrowing of funds. [Paragraph 5, IPSAS 5]
- *IPSAS 5*: Expense all borrowing costs, except for option to capitalize costs for a “qualifying asset” during period between acquisition/construction and active use
- IPSASB’s previous project (2007-2009):
  - Public sector reasons to diverge from IFRS
  - Expensing: Most appropriate accounting policy. Capitalization restricted to direct link between the debt and qualifying asset
  - Defer issue until Conceptual Framework completed
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## Topic 4 Options for IPSAS 5

- A. *IPSAS 5*: No change to IPSAS 5
- B. *IAS 23 convergence*: Require capitalization for borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset
- C. *ED 35's approach*: Capitalization option applies to borrowing costs that are directly attributable and specifically incurred
- D. *GFS alignment*: Remove capitalization option so that all borrowing costs are expensed with no exceptions

## Topic 4 Borrowing costs (cont'd)

### Decisions:

- Should staff draft an ED to amend IPSAS 5, for consideration in September? and
- What amendment to IPSAS 5, *Borrowing Costs*, does the IPSASB support?

## Next steps

1. Review ED, *Borrowing Costs*
2. Education session on IFRS 13, *Fair Value Measurement*, and the IASB's post-implementation review
3. Discuss how to address fair value in IPSAS
4. Discuss liability measurement in IPSAS and its relationship to the Conceptual Framework measurement bases

Next steps depend on decisions at this meeting



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