

Agenda Item 8.2.1: Education Session Public Sector Measurement

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IPSASB Meeting

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Education Session Overview

1. Conceptual Framework: *Chapter 7, Measurement*
2. IFRS 13, *Fair Value Measurement*
3. Measurement in:
 - International Valuation Standards
 - GFS reporting guidelines

Conceptual Framework (CF): Chapter 7, *Measurement,*

- Guidance to select measurement bases:
 1. The objective of measurement
 2. Measurement bases for assets and liabilities (with classification)
- Discussion of each measurement basis (objective of measurement, qualitative characteristics, constraints)
- Not able to identify a single, best measurement basis for all circumstances (at CF level)

CF-1. The Objective of Measurement:

To select measurement bases that most fairly reflect entity's

- cost of services,
- operational capacity and
- financial capacity

in a manner that is useful in holding the entity to account, and for decision-making purposes

CF-2. Measurement Bases

Assets	Liabilities
Historical cost	Historical cost
<i>Current value:</i>	<i>Current value:</i>
Market value	Market value
Replacement cost ▶	Assumption price
Net selling price ▶	Cost of release
Value in use	Cost of fulfillment

CF-2. Measurement Bases - Classification

Measurement Basis (Assets)	Entry or Exit?	Observable in Market?	Entity Specific?
Historical cost	Entry	Generally, yes	Yes
Market value in open, active and orderly market	Entry and exit	Yes	No
Market value in inactive market	Exit	Depends	Depends
Replacement cost	Entry	Yes	Yes
Net selling price	Exit	Yes	Yes
Value in use	Exit	No	Yes

CF-2. Measurement Bases - Classification

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Historical cost	Entry	Generally, yes	Yes
Market value in open, active and orderly market	Entry and exit	Yes	No
Market value in inactive market	Exit	Depends	Depends
Cost of fulfillment	Exit	No	Yes
Cost of release	Exit	Yes	Yes
Assumption price	Entry	Yes	Yes

CF: Market Value

- Old fair value definition (in IPSASB's literature)
 - Amount for which an asset could be exchanged (or liability settled between knowledgeable, willing parties in arm's length transaction)
- Not IASB's fair value because:
 - Limited relevance in public sector
 - Treats measurement bases as “measurement techniques”

CF: Basis of Conclusions - Why “fair value” not useful

- Specialized assets:
 - Many public sector assets are specialized
 - Significant differences between entry and exit values
- Fair value (exit price):
 - Not relevant if asset’s future services/benefits worth more than exit value
 - Net selling price is better measure if asset will be sold (does not assume open, active and orderly market)

CF: Basis of Conclusions - Current Values for Assets

- Market value not necessarily appropriate
- Replacement cost reflects asset's service potential when:
 - Deliver services in non-exchange transactions
 - Use specialized assets
- Net selling price if plan to discontinue use of asset or required to sell asset at below market value
- Value-in-use when asset not replaced but use continues

IFRS 13, *Fair Value Measurement* (IFRS 13)

IASB developed IFRS 13 to

- Converge IFRSs with United States GAAP
- Bring together all fair value requirements and guidance in one IFRS
 - ease of reference
 - consistent and sufficient guidance
 - more comparable information in financial statements
- Provide clear measurement and disclosure objectives for fair value

IFRS 13: Overview

- IFRS 13:
 1. Defines fair value
 2. Sets out framework for measuring fair value:
 - a) Key considerations
 - b) Measurement techniques
 - c) Hierarchy of inputs for measurement
 3. Requires disclosures about fair value measurements

IFRS 13: Definition of Fair Value

IFRS 13 definition: The price that would be received to sell an asset (paid to transfer liability) in orderly transaction between market participants at measurement date

Old definition: The amount for which an asset could be exchanged (or liability settled) between knowledgeable, willing parties in an arm's length transaction

IFRS 13: Fair value (FV) is “the price”

- An exit price
- Not adjusted for transaction costs (Apply other IFRS to account for transaction costs)
- Adjust price for transport costs, if location is a characteristic of the asset
- Market-based, not entity specific

IFRS 13: FV Measurement Framework

Key considerations: Entity must determine the:

- (a) Particular asset or liability being measured;
- (b) Market in which orderly transaction would take place; and
- (c) Appropriate valuation technique(s) to use
- (d) For a non-financial asset, entity must determine:
 - i. highest and best use of the asset; and
 - ii. whether used in combination with other assets or on stand-alone basis

IFRS 13: Valuation techniques

- Valuation techniques:
 - Market approach
 - Cost approach
 - Income approach
- Inputs for valuation technique(s):
 - maximize observable inputs (minimize unobservable inputs)
 - what market participants would use to price asset/liability

IFRS 13: Hierarchy of Inputs for Valuation

- Level 1 inputs: *Quoted prices* in active markets for identical assets or liabilities that entity can observe at measurement date
- Level 2 inputs: *Other observable inputs*
- Level 3 inputs: *Unobservable inputs* for the asset or liability

IFRS 13: Comparison with CF

Conceptual Framework (IPSASB)	IFRS 13, Fair Value Measurement
Market value either entry or exit value	Fair value is exit price (i.e. exit value)
Measurement bases	Measurement techniques
Non-financial assets: <ul style="list-style-type: none">Operational capacity and service potential importantMay need to use replacement cost to measure service potential	Apply fair value: <ul style="list-style-type: none">Consider highest and best use only

IFRS 13's Status and Review

- Issued in May 2011. Effective from January 2013
- IASB doing post implementation review (PIR) in 2017:
 - Phase 1 completed — IASB identified topics for analysis
 - Phase 2 in progress — Request for Information (RFI) published in May
 - 22 Sept is deadline for comments in response to RFI

IFRS 13's Post Implementation Review: Topics

- Whether more FV guidance or information needed:
 - Biological assets and unquoted equity instruments
 - Quoted investments in subsidiaries, joint ventures and associates
- **Non-financial assets: Application of 'highest and best use' when measuring FV**
- Application of judgement
- Disclosures

International Valuation Standards (IVS)

- Valuers must apply relevant Standard, when valuing assets and liabilities for financial reporting purposes
- IVS relevance:
 - Measurement experts – consider IVS framework (approach and terminology) as guidance
 - Is there scope to apply/align with IVS? (e.g. IFRS 13, *Fair Value Measurement*, uses an IVS approach and terminology)

IVS: Approach to Valuation

- Basis of value:
 - Generally assumes a transaction, date of transaction, and parties to the transaction
- Premise of valuation:
 - For example, highest and best use
- Other general principles:
 - For example, treatment of entity specific factors, transaction costs
- Valuation approaches and methods

IVS: Bases of Values: Defined and Other

- IVS-defined bases of value:
 - market value, market rent, equitable value, investment value/worth, synergistic value, and liquidation value
- Other bases of value:
 - fair value (IFRS)
 - fair market value (OECD, US Inland Revenue), and
 - fair value (legal/statutory) (different jurisdictions)

IVS: Valuation Approaches

- The principal valuation approaches are:
 - market approach,
 - income approach, and
 - cost approach
- Detailed methods of application for each approach
- Select valuation approach and methods suitable for circumstances

Government Finance Statistics (GFS)

- Assets and liabilities measured at current market prices
 - Scope to use alternative valuation methods where an active market does not exist
- Comparison: Aligned with IPSAS where:
 - An IPSAS applies current value measurement, or
 - IPSAS includes current value option and entity chooses that option



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