

Agenda Item 8 Public Sector Measurement

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IPSASB Meeting

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Overview

- Education session (8.2.1 and PPT presentation)
- Issue 1, Options for approach (8.2.2)
- Issue 2, Measurement of liabilities (8.2.3)
- Issue 3, Transaction costs, borrowing costs (8.2.4)

Issue 1, Options (8.2.2)

- What are your views on:
 - Options to address public sector measurement in IPSAS;
 - How to identify when:
 - A public sector specific measurement approach is needed, or
 - IFRS 13 may be applicable for IPSAS measurement?

Issue 1, Four Options

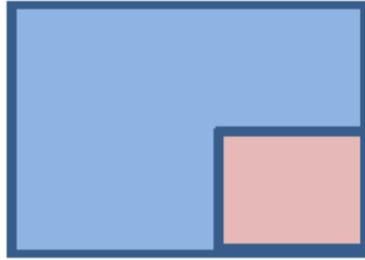
- A. Public sector specific IPSAS (little or no reference to IFRS 13)
- B. Hybrid IPSAS – applies Conceptual Framework (subsection on areas where IFRS 13 approach applicable)
- C. Hybrid IPSAS based on IFRS 13's measurement approach (subsection on public sector specific measurement)
- D. Converged IPSAS – equivalent to IFRS 13, *Fair Value Measurement*

Issue 1, Four Options

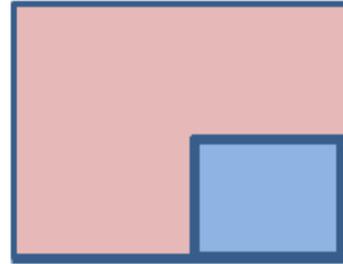
A. IPSAS



B. IPSAS (IFRS)



C. IFRS (IPSAS)



D. IFRS



Issue 1, Task Force recommends Option B

- Task Force recommends Option B: *Hybrid IPSAS* – applies Conceptual Framework (subsection on areas where IFRS 13 approach applicable)
- Agenda item 8.3.1. outlines advantages and disadvantages of each option

Issue 1: Review of IPSAS: Factors to consider

- Public sector specific measurement:
 - IPSAS adjusted to address public sector specific issues?
 - Public sector specific IPSAS or situation?
 - Occurrence of public sector specific assets and liabilities?
- Possible scope to apply IFRS 13 fair value approach:
 - Extent of convergence with equivalent IFRSs?

Issue 1: IPSASB is asked to:

- Confirm that:
 - The main options have been identified; and
 - Option B is the option that should be developed
- Provide views on factors to identify when either:
 - Public sector specific measurement approach is appropriate; or
 - IFRS 13's approach may be applicable

Issue 2: Measurement of liabilities (8.2.3)

1. What public sector specific issues need to be addressed?
2. Where should a public sector specific approach be used?
3. When could an IFRS 13 approach to liability measurement be appropriate?

Issue 2: Public Sector Specific IPSASs

- IPSAS 23, *Revenue from Non-Exchange Transactions*
- IPSAS 32, *Service Concession Arrangements: Grantor*
- IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*
- IPSAS 40, *Combinations*

Issue 2: IFRS Converged IPSASs

IPSAS 13, *Leases*

IPSAS 19, *Provisions and Contingencies*

IPSAS 29, *Financial Instruments: Recognition and Measurement*

IPSAS 35, *Consolidated Financial Statements*

IPSAS 37, *Joint Arrangements*

IPSAS 39 *Employee Benefits*

Issue 2: Public Sector Specific Issues

General points, including application of the Conceptual Framework

Use of market values: Extent to which market values should be used, including current interest rates as discount rates for long-term liabilities

Guidance on discount rates: How to identify appropriate discount rates and address negative discount rates when measuring liabilities

Management intention: What significance for liability measurement?

Cost-benefits: Need flexibility to apply other approach when cost of fair value measurement outweighs benefits

Issue 2: IPSASB is asked to provide direction on:

1. Public sector specific liability measurement issues that this project should address
2. IPSASs, situations or types of liability where:
 - A public sector measurement approach is needed; or
 - An IFRS 13 approach to measurement could be applicable

Issue 3: Transaction costs, borrowing costs (8.2.4)

- Do you agree that IPSASs could be improved by:
 - Clarifying the treatment of transaction costs, without changing established accounting treatment; and
 - Removal of option in IPSAS 5, *Borrowing Costs*, to capitalize certain borrowing costs?

Issue 3: Asset Measurement (Valuation) Generally

- Financial reporting uses mixture of historical cost and current values to measure assets
- Valuers refer to the applicable financial reporting standard
- Government finance statistics prefer current market prices

Issue 3: Application of a Measurement Basis (MB)

- Application of measurement basis, e.g. for historical cost:
 - Accounting unit?
 - What costs should be capitalized (initial measurement)?
 - Depreciation/amortization): Methods, useful life, residual value, etc.?
- Conceptual Framework (CF) does not address application of a measurement basis

Issue 3: Capitalization of Costs

- Cost capitalization either a recognition or **measurement** issue
- IPSAS treatment:
 - *Historical cost*: Capitalize directly attributable costs. (Transaction costs are directly attributable, while borrowing costs open to debate)
 - *Current values*: Depends; e.g. replacement cost-yes (?), value in use-no

Issue 3: Capitalization of Costs

- Application of Conceptual Framework principles:
 - *Measurement objective*: Do these costs have economic benefits/service potential? If so, capitalization would support achievement of measurement objective.
 - *Qualitative characteristics*: Clear, consistent treatment for such costs will support information that achieves the QCs.

Issue 3: IVS Treatment of transaction costs

- Most bases of value represent estimated exchange price without regard to transaction costs
- Cost approach:
 - Should capture all costs of typical participant
 - Includes transaction costs in illustrative list of costs
 - Valuer would refer to applicable purpose/ financial reporting standard to decide whether to include transaction costs

Issue 3: IVS—Treatment of borrowing costs

- Generally value of asset is independent of how financed (so exclude borrowing costs)
- Cost approach:
 - Includes “finance costs” (e.g. borrowing costs) in illustrative list of costs
 - Valuer would refer to applicable purpose/ financial reporting standard to decide whether to include borrowing costs

Issue 3: GFS reporting guidelines

- Transaction costs: Sometimes capitalized
 - Called “costs of ownership transfer”
 - Included in cost of acquisition (capitalized) for nonfinancial assets
 - Expensed for financial assets and liabilities
- Borrowing costs: Expensed

Issue 3: Staff recommendations

- *Transaction costs:*
 - No fundamental reconsideration and change
 - Improve clarity of present IPSAS treatment
- *Borrowing costs:*
 - Remove capitalization of borrowing costs option in IPSAS 5
 - *Basis for change:* An improvement to better achieve qualitative characteristics (e.g. comparability and understandability)

Issue 3: IPSASB asked to provide direction on:

- Whether staff should draft IPSAS amendments to address:
 - a) Clarification of treatment of transaction costs across IPSASs, without changing the present accounting treatment; and
 - b) Removal of the option to capitalize certain borrowing costs in IPSAS 5, *Borrowing Costs*

Next steps

1. Draft first chapters of consultation paper
2. Develop proposals on IPSAS impacts:
 - Public sector specific measurement areas; and
 - Scope to apply IFRS 13, *Fair Value Measurement*
3. Draft revision to IPSAS 5, *Borrowing Costs*



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