

Meeting: International Public Sector Accounting Standards Board
Meeting Location: New York, USA
Meeting Date: March 6–9, 2018

Agenda Item 6

For:
 Approval
 Discussion
 Information

Public Sector Measurement

| | | |
|---|--|-----------------------|
| Project summary | Project will revise IPSAS requirements for measurement and measurement-related disclosure, provide guidance on measurement and address the treatment of transaction costs and borrowing costs. | |
| | <i>Topic</i> | <i>Agenda Item</i> |
| Project management | Instructions —Up to March 2018 meeting | 6.1.1 |
| | Decisions —Up to March 2018 meeting | 6.1.2 |
| | Project roadmap | 6.1.3 |
| Decisions required at this meeting | Topic 1 : Approve ED sections on objective, scope and definitions | 6.2.1 |
| | Topic 2 : Approve ED sections on initial measurement and treatment of transaction costs | 6.2.2 |
| | Topic 3 : Approve CP Chapter 1, <i>Introduction</i> , and Chapter 2, <i>Conceptual Framework and Measurement</i> | 6.2.3 |
| | Topic 4 : Approve CP Chapter 3, <i>Borrowing Costs</i> | 6.2.4 |
| Education session | Conceptual Framework and Individual IPSASs | 6.2.5 |
| Supporting items | Examples of objectives and scope | 6.3.1 |
| | Definitions for ED | 6.3.2 |
| | CP Chapters 1–3 | 6.3.3 |
| | Conceptual Framework excerpts (for Topic 2) | 6.3.4 |
| | ED-XX-Measurement | 6.3.5 |

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6.1.1

IPSASB Instructions—Up to March 2018 meeting and earlier

| Meeting | Instructions | Actions |
|-----------|---|---|
| Dec 2017 | <ol style="list-style-type: none"> 1. Consider definitions used in International Valuation Standards (IVS) and Government Finance Statistics (GFS). 2. Monitor discount rate developments and bring paper to IPSASB's September 2018. 3. Review IPSASs against the Conceptual Framework with no presumption that current measurement requirements should continue. 4. Develop ED sections for the March 2018 IPSASB meeting. | <ol style="list-style-type: none"> 1. Done 2. In progress 3. In progress 4. Done |
| Sept 2017 | <ol style="list-style-type: none"> 1. Develop a hybrid IPSAS that applies the Conceptual Framework to public sector specific (PSS) measurement issues and has a section on application of IFRS 13's approach to fair value (Option B) 2. Develop an outline of the CP 3. Develop a description of public sector specific (PSS) measurement issues 4. Develop proposals for when either a PSS measurement approach is needed or where an IFRS 13 fair value measurement approach could apply 5. Consider the boundary between IPSAS, <i>Measurement</i>, and individual IPSASs 6. Test responses to CP, <i>Heritage</i>, against the PS Measurement approach | <ol style="list-style-type: none"> 1. In progress 2. Done 3. Done 4. Done 5. Done. See ED outline 6. Will apply ED principles |

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6.1.1

| Meeting | Instructions | Actions |
|---------------------------------|---|--|
| June 2017 | <ol style="list-style-type: none"> 1. Consider convergence with IFRS, particularly scope to incorporate an IFRS 13, <i>Fair Value Measurement</i>, approach into IPSAS 2. Apply the Conceptual Framework's measurement objective to the treatment of transaction costs 3. For September 2017 IPSASB meeting: <ol style="list-style-type: none"> a) Bring back the transaction costs and borrowing costs issues as part of a more general discussion of asset valuation for the IPSASB's consideration; b) Provide an education session on IFRS 13 and its post-implementation review; and c) Discuss ways to address fair value in IPSAS, in the context of the Conceptual Framework's approach to current value measurement and IFRS 13's approach. | <ol style="list-style-type: none"> 1. Done 2. Done 3 (a) Done 3 (b) Done 3 (c) Done |
| March 2017 | <ol style="list-style-type: none"> 1. Revise project brief and create project page 2. Develop a questionnaire for IPSASB/Technical Adviser/Observers' input on the project's scope 3. Identify project work streams 4 Provide education session on the IASB's post implementation review of IFRS 13 in September 5. Log information on how other IPSASB projects relate to the Public Sector Measurement project | <ol style="list-style-type: none"> 1. Done 2. Done 3. Done 4 Done 5 Done |
| September 2015 to December 2016 | Project awaits start. First discussion in March 2017 | Done |
| June 2015 | Revise project brief for IPSASB revisions. | Done |

IPSASB Decisions—Up to March 2018 meeting

| Meeting | Decisions |
|---------------------------------|---|
| December 2017 | <ol style="list-style-type: none"> 1. The ED and CP outlines (for December 2017 meeting) should apply for their development 2. With respect to the project's timeline, Route 1 will be used for planning purposes |
| September 2017 | <ol style="list-style-type: none"> 1. The CP will “wrap around” an ED 2. IPSAS, <i>Measurement</i>, should be a hybrid IPSAS that applies the Conceptual Framework to public sector specific (PSS) measurement issues and has a section on application of IFRS 13 fair value 3. The capitalization of borrowing costs issue will be included in the CP 4. The Public Sector Measurement project will address measurement of heritage and infrastructure assets through additional Application Guidance in IPSAS, <i>Measurement</i> |
| June 2017 | Work on measurement guidance and disclosures in IPSAS will occur after work on measurement bases |
| March 2017 | Approved revisions to the project brief |
| September 2015 to December 2016 | No decisions as project awaits start. First discussion will be in March 2017. |
| June 2015 | Approved the “Public Sector Measurement” project brief |

Public Sector Measurement Project Roadmap

| Meeting | Completed Discussions/ Planned Discussions: |
|-----------------------------|--|
| March 2017 | <ol style="list-style-type: none"> 1. Introduction to the project. 2. Project objectives and timetable. 3. Revised project brief. |
| June 2017 | <ol style="list-style-type: none"> 1. Preliminary analysis of IPSAS measurement requirements, including treatment of transaction costs. |
| September 2017 | <ol style="list-style-type: none"> 1. Education session on Measurement in the Conceptual Framework, IFRS 13, Fair Value Measurement, Government Finance Statistics (GFS) reporting guidelines and International Valuation Standards (IVS). 2. Options for broad approach. 3. Valuation, transaction costs and borrowing costs. 4. Issues raised by IPSAS measurement of liabilities. |
| December 2017 | <ol style="list-style-type: none"> 1. Approval of outline of draft Consultation Paper (CP) and Exposure Draft (ED) and revisions to the Project Roadmap. 2. Public Sector Measurement – contextual paper. 3. The approach to reviewing IPSASs for public sector measurement requirements and fair value references, including examples. |
| <i>Indicative</i> | <i>Indicative</i> |
| March 2018 | <ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on Objective, Scope, Definitions, Transaction and Borrowing Costs, and Measurement on Initial Recognition. |
| June 2018 | <ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on Subsequent Measurement. |
| September 2018 | <ol style="list-style-type: none"> 1. Approval of draft ED sections (and any related CP material) on Measurement on Derecognition, and Disclosures in respect of Measurement. 2. Consideration of links with Infrastructure and Heritage projects in terms of Application Guidance and Amendments to Other IPSASs. |
| December 2018 | <ol style="list-style-type: none"> 1. Decision on consultation methodology (Route 1 or Route 2). 2. Approval of any Application Guidance or outline Amendments to Other IPSASs available by December 2018. 3. Approve the CP/ED for issuance. |
| Mid-January to mid-May 2019 | <ol style="list-style-type: none"> 1. Consultation Period |
| March 2019 | <ol style="list-style-type: none"> 1. Consider further Application Guidance if available. 2. Consider further Amendments to Other IPSASs if available. |
| June 2019 | <ol style="list-style-type: none"> 1. Initial review of responses to consultation. 2. Discussion of issues raised by constituents. 3. Consider further Application Guidance if available. 4. Consider further Amendments to Other IPSASs if available. |

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| Meeting | Completed Discussions/ Planned Discussions: |
|----------------------------------|---|
| | Route 1 |
| September 2019 | <ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Consider draft IPSAS on Public Sector Measurement. |
| December 2019 | <ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Consider draft IPSAS on Public Sector Measurement |
| March 2020 | <ol style="list-style-type: none"> 1. Approve IPSAS on Public Sector Measurement. 2. Consider consequential amendments in respect of Application Guidance and Amendments. |
| June 2020 | <ol style="list-style-type: none"> 1. Consider consequential amendments in respect of Application Guidance and Amendments. |
| Mid-July to mid-November 2020 | |
| September 2020 | <ol style="list-style-type: none"> 1. Approve ED on consequential amendments in respect of Application Guidance and Amendments. |
| Mid-October 2020 to mid-Feb 2021 | <ol style="list-style-type: none"> 1. Consultation Period. |
| December 2020 | |
| March 2021 | <ol style="list-style-type: none"> 1. Discussion of issues raised by constituents. 2. Review of draft pronouncement on consequential amendments. |
| June 2021 | <ol style="list-style-type: none"> 1. Approve pronouncement on consequential amendments |

1. Exposure Draft: Objective, Scope and Definitions**Question**

1. What are the IPSASB's views on the draft Exposure Draft (ED) sections for objective, scope and definitions?

Detail

1. The draft ED sections (see [agenda paper 6.3.5](#)) reflect directions provided by the Public Sector Measurement Task Force (Task Force) and IPSASB Chairs. They have been reviewed by the Task Force and revised for comments received. Further revisions occurred subsequently to give effect to further Task Force Chair and Technical Director review comments. (The same process applied to agenda papers for each topic.)

Further Information—Objective

2. This objective captures the main rationale for this Standard, as discussed by the IPSASB in December 2017. For comparison, [agenda paper 6.3.1](#) has four examples of objectives in recent EDs and Standards. Arguably the objective could also refer to measurement of revenue and expenses, since the ED outline includes subheadings related to expenses, for example, the “depreciation and amortization” subheading, while there are dependencies between how assets and liabilities are measured and the measurement of revenue and expense.

Further Information—Scope

3. The proposed scope covers the measurement of all assets and liabilities, and does not exclude any categories of assets and liabilities. This is consistent with IPSASB directions to date, which have been to develop one Standard in which a reader can easily identify all IPSAS measurement requirements. Applying that perspective, this Standard will point a reader in the direction of another Standard, where more detailed measurement requirements are included elsewhere, (e.g. impairment or fair value measurement).
4. The IPSASB has indicated that some types of assets and liabilities (e.g. financial instruments) are likely to apply IFRS 13, *Fair Value Measurement*, requirements. The proposed scope assumes that the Measurement IPSAS would still apply in these situations (i.e. financial instruments, for example, are included in its scope), on the basis that the Measurement IPSAS will identify when (and which) assets and liabilities should be measured at fair value as defined in IFRS 13.

Further Information—List of Definitions

5. The short list of definitions in the ED addresses:
 - (a) Measurement bases; and
 - (b) Other definitions relevant to topics considered at this IPSASB meeting.
6. Further terms that require definition are likely to be identified as further ED sections are developed. The proposed approach is to add these as they are identified. An alternative approach would be to identify as many terms as possible at this point. The comprehensive list of measurement-related definitions provided in [agenda paper 6.3.2](#) can be used to identify additional terms to define.

7. The comprehensive list of measurement-related definitions was developed as directed by the Task Force and IPSASB Chairs. The list allows IPSASB members to compare definitions from the following sources, identify conflicts, and then decide on which definitions should remain:
 - (a) IPSASB pronouncements (the Conceptual Framework and IPSAS glossary of terms);
 - (b) IFRS 13, *Fair Value Measurement*;
 - (c) Valuation standards¹; and
 - (d) GFS reporting guidelines².
8. The definitions already included in ED-XX are shaded in the long list of definitions in [agenda paper 6.3.2](#).

Location of Definitions in ED, Measurement

9. ED-XX has definitions after scope, which is the standard location for IPSAS definitions. This ED may ultimately have a large number of definitions³. One option to cope with a large number of definitions would be to locate them in an appendix to the Standard.

Definitions from IFRS 13, *Fair Value Measurement*

10. There are two broad options to address IFRS 13's content in ED, *Measurement*:
 - (a) *Refer* to IFRS 13 to the extent necessary to establish the IFRS 13 meaning for fair value in IPSAS, *Measurement*; or
 - (b) *Reproduce* IFRS 13's content, so far as applicable, in IPSAS, *Measurement*.
11. In the first case, readers of the IPSAS would see a reference to fair value and then refer to IFRS 13, *Fair Value Measurement*, in order to understand the meaning of fair value. In the second case, readers would have full coverage in the IPSAS, which would be a standalone document. Readers would not need to refer to IFRS 13 for further information.
12. The ED has one definition, "fair value," from IFRS 13. This approach assumes that IPSAS, *Measurement*, will refer to IFRS 13 rather than include a section that reproduces IFRS 13. That is consistent with the ED's principles-level focus, as approved in December.

Decisions required

1. The IPSASB is asked to approve the following ED sections:
 - (a) Objective;
 - (b) Scope; and
 - (c) Definitions.

¹ Relevant terms in the IVS 2017 glossary, IVS defined bases of value, and descriptions of the valuation approaches were included in the list. The Index was reviewed for further relevant terms.

² Relevant terms in the glossaries in the System of National Accounts (SNA 2008) and Government Financial Statistics Manual (GFSM 2014) were included in the list.

³ For example IFRS 13, which has a significantly narrower scope, defines 25 terms.

2. ED Sections on Initial Measurement and Transaction Costs

Question

1. What are the IPSASB's views on the draft ED sections on:
 - (a) Measurement on initial recognition, and
 - (b) Treatment of transaction costs?

Detail

1. The draft ED sections (see [agenda paper 6.3.5](#)) reflect directions from the IPSASB and Task Force Chairs to the effect that they should:
 - (a) Be kept very concise (i.e. no more than three to four sentences);
 - (b) Convey that initial measurement for assets is at cost, which equates to either an initial current value or historical cost, with use of a surrogate for cost where cost does not convey the value of the asset or liability; and
 - (c) Include coverage for initial measurement of liabilities that is kept similarly brief.
2. Points made during the IPSASB's December 2017 meeting (relevant to these sections) are:
 - (a) The PSM Standard should articulate measurement principles and address public sector issues, with each subsection kept short (one to two paragraphs). Consequential amendments to IPSASs will be dealt with separately.
 - (b) The initial measurement section will include principles for deemed cost (a current value used as a surrogate or proxy for cost), while the subsequent measurement section will address the relatively straightforward issues raised by the historical cost model (e.g. depreciation) as well as the more challenging issues around revaluation.

The Conceptual Framework on Initial Measurement

3. During development of the Conceptual Framework the IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement⁴. Then those principles would involve consideration of:
 - (a) The five measurement bases identified for assets and for liabilities; and
 - (b) The extent to which each measurement basis would achieve the measurement objective; and the qualitative characteristics, taking into account the constraints.
4. Arguably the transaction price on acquisition of an asset (incurrence of a liability) indicates an initial value representative of either:
 - (a) Historical cost; or
 - (b) A current value.
5. Staff reviewed the Conceptual Framework to ascertain whether it is possible to assume that the four current value measurement bases for assets are equivalent to cost as of acquisition date. [Agenda paper 6.3.4](#) has excerpts with staff commentary, which provide some support for that approach.

⁴ Paragraph BC7.12 of the *Basis for Conclusions* to Chapter 7 of the *Conceptual Framework*. [Agenda paper 6.3.4](#) has this relevant paragraphs and other excerpts from the Conceptual Framework relevant to this discussion.

6. The Conceptual Framework states that a surrogate for the “transaction price when purchased on arm’s-length terms” may be required if, for example, an asset has been contributed or provided on subsidized terms⁵. Its definition and description of replacement cost supports its use as a surrogate for cost. For example, paragraph 7.39 of the Conceptual Framework explains that: “Because entities usually acquire their assets by the most economic means available, replacement cost reflects the procurement or construction process that an entity generally follows.”
7. The draft ED includes fair value as a surrogate, because it has been specified in recent IPSASB deliberations for on-going projects, for example the two financial instruments projects.

Liabilities

8. The text for initial measurement of liabilities was developed with reference to:
 - (a) The Conceptual Framework’s descriptions of measurement bases for liabilities, where some measurement bases are viewed as unlikely to be used frequently⁶;
 - (b) IPSASB views on liability measurement in recent projects (e.g. Social Benefits, Revenue and Expenses, and Leases)⁷; and
 - (c) Indicative comments at the December 2017 IPSASB discussion, where cost of fulfilment was noted as essentially equivalent to the measurement approach in IPSAS 19, *Provisions and Contingent liabilities and Contingent Assets*.

Treatment of Transaction Costs

9. Transaction costs are 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. Examples of transaction costs include professional fees for legal services, transfer taxes and handling costs. IPSAS defines transaction costs for financial instruments in IPSAS 29, *Financial Instruments: Recognition and Measurement*⁸. That definition revised to be more general is:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability. Examples of transaction costs include: professional fees for legal services and transfer taxes⁹.
10. Economists and investors view transaction costs as expenses that do not add value¹⁰. They result from market imperfections and are sometimes called “frictional costs”. A market improves if transaction costs reduce¹¹. Financial reporting standards may require that transaction costs be

⁵ The Conceptual Framework treats “transaction price” as the starting point to determine the acquisition cost for an asset.

⁶ See, for example, the description of value in use in paragraph 7.59 of the Conceptual Framework.

⁷ ED 64 Leases, for example, proposes the right-of-use asset arising from a concessionary lease should be measured at fair value.

⁸ Paragraph 10, IPSAS 29, states that: Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability... An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

⁹ This description is consistent with the IFRS 13, *Fair Value Measurement*, definition and references in the project brief and Conceptual Framework. See Agenda Item 11.3.3 for further information.

¹⁰ Economics definition: “The cost associated with exchange of goods or services and incurred in overcoming market imperfections. Transaction costs cover a wide range: communication charges, legal fees, informational cost of finding the price, quality, and durability, etc., and may also include transportation costs.”

<http://www.businessdictionary.com/definition/transaction-cost.html>

¹¹ See <http://www.investopedia.com/terms/t/transactioncosts.asp>

capitalized when initially measuring the cost of an asset, which implies that they add value. Such costs may also be subtracted to determine the exit value of an asset.

11. The Conceptual Framework:
 - (a) Explains that transaction costs are one of two differences that distinguish entry prices from exit prices¹²;
 - (b) Classifies measurement bases as either¹³:
 - (i) Entry values or exit values; and
 - (ii) Entity specific or non-entity specific. (Financial reporting literature appears to accept that transaction costs are entity-specific costs.)
12. Therefore the treatment of transaction costs depends on the appropriate measurement basis. If a measurement basis is an entry value and entity-specific then transaction costs are likely to be included. Conversely, if a measurement basis is either an exit value or non-entity-specific then transaction costs are not included.
13. The draft ED proposes that transaction costs be included in the initial measurement of an asset except where assets are measured at fair value, in which case IFRS 13 requirements apply. This treatment is based on the following considerations:
 - (a) Generally public sector entities acquire assets for use rather than sale, with the result that an entry value measurement basis rather than an exit value will be applicable. The Conceptual Framework states that transaction costs are included in entry values.
 - (b) Where an exit value applies, fair value appears to be the more likely applicable measurement basis¹⁴. IFRS 13's requirements for treatment of transaction costs will apply, whereby transaction costs are generally expensed.
14. If a discussion in the CP is needed to explain the basis for the IPSASB's decision on transaction costs, then the coverage in this agenda paper could form a basis for the CP's discussion, revised as necessary to reflect the IPSASB's decisions on treatment of transaction costs in the ED.

Treatment of Borrowing Costs—See Topic 4 (CP, Chapter 3)

15. The ED's proposed treatment for borrowing costs is to expense them. This is the preliminary view in draft Chapter 3 of the CP ([agenda paper 6.3.3.](#)), discussed as Topic 4 in [agenda paper 6.2.4.](#)

Decision required

1. The IPSASB is asked to approve the following ED sections:
 - (a) Measurement of Assets on Initial Recognition;
 - (b) Measurement of Liabilities on Initial Recognition; and
 - (c) Transaction costs.

¹² Paragraph 7.8 of the Conceptual Framework.

¹³ See Table 1 after paragraph 7.6 of the Conceptual Framework.

¹⁴ At this stage in the ED's development use of fair value is foreseeable in at least some cases (e.g. financial instruments). If the IPSASB identifies other exit values (e.g. net selling price) applicable to measurement on initial recognition, then this would likely result in revisions to this section.

3. Consultation Paper—Chapters 1 and 2**Question**

1. What are the IPSASB's views on the following draft chapters for CP, *Public Sector Measurement* (see [agenda paper 6.3.3](#)):
 - (a) Chapter 1, *Introduction*; and
 - (b) Chapter 2, *Conceptual Framework and Measurement*?

Detail

1. The CP will wrap around the ED, with both documents issued at the same time. As the IPSASB approved in December, most of the CP's content will be based on the IPSASB's discussion of issues related to the ED. Chapter 1 and 2 are exceptions, because they provide an introduction and context. Each chapter covers the topics identified in the approved CP outline.
2. The CP outline has the following headings for Chapter 1:
 - 1) Background to the CP
 - 2) Measurement issues to address
 - (a) Consistency with Conceptual Framework
 - (b) IFRS 13
 - (c) Clarity of requirements in IPSASs
 - 3) Scope of coverage
 - 4) Structure of CP
3. The CP outline has the following headings for Chapter 2:
 - 1) Selection of measurement bases
 - 2) Factors to consider when selecting a measurement basis
 - 3) Application of measurement bases – issues arising in practice

Decisions required

1. The IPSASB is asked to approve:
 - (a) Chapter 1, *Introduction*; and
 - (b) Chapter 2, *Conceptual Framework and Measurement*.

4. Consultation Paper—Chapter 3, *Borrowing Costs***Question**

1. What are the IPSASB's views on:
 - (a) Draft [Chapter 3, *Borrowing Costs*](#) (see [agenda paper 6.3.3](#)); and
 - (b) Chapter 3's proposed preliminary view, which is to expense all borrowing costs?

Detail

1. In December, 2017 the IPSASB approved a CP outline which has Chapter 3 covering both transaction costs and borrowing costs. The outline has the following chapter subheadings:
 - a) Capitalization or expensing
 - b) Treatment under the historical cost and revaluation models
 - c) Treatment at initial and subsequent measurement
2. Chapter 3 focuses primarily on the first subheading above, i.e. "Capitalization or Expensing." The discussion concludes with a proposed preliminary view, whereby all borrowing costs would be expensed, which is the benchmark treatment in IPSAS 5, *Borrowing Costs*. If the IPSASB agrees with that preliminary view then no substantive issues would arise under heading (b).
3. The IPSASB's discussion of the treatment of transaction costs (see agenda item 6.2.2), appears likely to result in coverage about transaction costs for inclusion in Chapter 3, once the IPSASB has formed its view on the treatment of transaction costs at initial recognition. In January the Task Force and IPSASB Chairs clarified that, for the IPSASB's March meeting, draft Chapter 3 should address borrowing costs, but not transaction costs, while the ED and related Issues Paper discussion should address transaction costs. That approach is consistent with:
 - (a) The IPSASB's previously indicated views that the CP (rather than the ED) should discuss borrowing costs; and
 - (b) CP coverage is generally conditional on whether the IPSASB's consideration of an issue warrants its discussion in the wrap around CP.

Decisions required

1. The IPSASB is asked to approve
 - (a) Chapter 3, *Borrowing Costs*; and
 - (b) The chapter's preliminary view on treatment of borrowing costs.

5. Impact of the Conceptual Framework on IPSASs

For Information: Education Session

1. This education session will provide information to support an IPSASB discussion of subsequent measurement in individual IPSASs.

Detail

1. In January, the Task Force and IPSASB Chairs directed staff to provide an education session with illustrative examples of IPSAS measurement considered in light of the review approach that the IPSASB approved in December 2017. The focus is on principles rather than detailed consequential amendments to IPSAS.
2. The ensuing IPSASB discussion is expected to identify issues for development of the ED sections on subsequent measurement, planned for approval at the IPSASB's June meeting.

Review Approach—Approved in December

3. The December minutes describe the review approach as follows:
 - (a) Apply a rebuttable presumption that existing measurement requirements and references to fair value will need revision for consistency with the Conceptual Framework (CF).
 - (b) Revisions will be necessary if the current measurement approach is only “broadly consistent” with a measurement basis in the CF. (For example, measurement requirements in IPSAS 12, *Inventories*, and IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, are likely to require amendment, to reflect the CF measurement bases.)
 - (c) When an IPSAS permits or requires the revaluation model a first step will be to determine whether the value is an exit value or an entry value¹⁵.
 - (d) Where an IPSAS refers to fair value:
 - (i) Entry value: If the measurement is an entry value, the IFRS 13 definition will be inappropriate and another measurement basis will be necessary.
 - a. If the asset is non-specialized then market value could be used, while replacement cost could be used for specialized assets.
 - b. Restrictions on asset use and location are integral to deciding whether or not an asset is specialized.
 - (ii) Exit value: If an IPSAS's reference to fair value represents an exit value, then apply the IFRS 13 fair value definition. (For example, the financial instruments project demonstrated that an IFRS 13 definition for fair value worked in many areas.)
 - (e) Another factor to consider is whether a value should be entity-specific or a non-entity specific approach is needed. (For example, the value of an office building is non-entity specific, while that for a museum is entity-specific. This could depend on whether there are restrictions on the asset's use. Location is important.)

¹⁵ An entry value reflects the cost of purchase for assets and, for liabilities, relates to the transaction under which an obligation is received or the amount that an entity would accept to assume a liability. Conceptual Framework Paragraphs 7.8 to 7.9. Exit values reflect the economic benefits from sale of an asset and also the amount that will be derived from use of the asset, and, for liabilities, the amount required to fulfill an obligation or the amount required to release the entity from an obligation. [Ibid.]

PowerPoint Presentation—Outline

4. As a prompt for the discussion, staff will provide brief review comments for the following IPSASs:

Assets

IPSAS 12, *Inventories*

IPSAS 16, *Investment Properties*

IPSAS 17, *Property, Plant and Equipment*

IPSAS 27, *Agriculture*

IPSAS 31, *Intangible Assets*

Liabilities

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

IPSAS 39, *Employee Benefits*

Other

IPSAS 40, *Public Sector Combinations*

For Information—no decision

1. This topic is provided as an information and discussion session.

Agenda Item 6.3.1

Appendix: Examples of Objectives—EDs and Standards

Example 1: ED 63 Social Benefits

5. This [draft] Standard sets out the principles for the recognition, measurement, presentation and disclosure of social benefits.
6. The objective of this [draft] Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:
 - (a) The nature of social benefits provided by the entity, and the key features of the operation of those social benefit schemes; and
 - (b) The impact of social benefits provided on the entity's financial performance, financial position and cash flows.
7. To accomplish that, this IPSAS establishes principles and requirements for:
 - (a) Recognizing social benefits;
 - (b) Measuring social benefits;
 - (c) Presenting information about social benefits in the financial statements; and
 - (d) Determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

Example 2: ED 62, Financial Instruments

The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

Example 3: IPSAS 1, Presentation of Financial Statements

The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other IPSASs.

Example 4: IFRS 13, Fair Value Measurement

Objective

- 1 **This IFRS:**
 - (a) **defines *fair value*;**
 - (b) **sets out in a single IFRS a framework for measuring fair value; and**
 - (c) **requires disclosures about fair value measurements.**

- 2 Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an *orderly transaction* to sell the asset or to transfer the liability would take place between *market participants* at the measurement date under current market conditions (ie an *exit price* at the measurement date from the perspective of a market participant that holds the asset or owes the liability).
- 3 When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant *observable inputs* and minimises the use of *unobservable inputs*. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.
- 4 The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this IFRS shall be applied to an entity's own equity instruments measured at fair value.

Agenda Item 6.3.2: DEFINED TERMS FOR ED, *MEASUREMENT*

| Term | Definition | Source |
|--|--|--|
| active market | A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. | IFRS 13, Appendix A |
| active market | An active market is a market in which all the following conditions exist: (a) The items traded within the market are homogeneous; (b) Willing buyers and sellers can normally be found at any time; and (c) Prices are available to the public. | IPSAS 21 Paragraph 14 |
| amortization | Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life. | IPSAS 31 Paragraph 16 |
| amortized cost of a financial asset or financial liability | Amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. | IPSAS 29 Paragraph 10 |
| assumption price | Assumption price is the term used in the context of liabilities to refer to the same concept as replacement cost for assets. Just as replacement cost represents the amount that an entity would rationally pay to acquire an asset, so assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability. Exchange transactions carried out on arms-length terms will provide evidence of assumption price—this is not the case for non-exchange transactions. | Conceptual Framework Paragraphs 7.87 to 7.89 |
| bases of value | Bases of value (sometimes called standards of value) describe the fundamental premises on which the reported values will be based. It is critical that the basis (or bases) of value be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer's selection of methods, inputs and assumptions, and the ultimate opinion of value. | IVS 2017, IVS 104, 10.1. |
| basic price | The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service produced as output minus any tax payable, and plus any subsidy receivable, by the producer as a consequence of its production or sale. It excludes any transport charges invoiced separately by the producer. | SNA 2008 6.51 |

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| Term | Definition | Source |
|------------------------|---|--|
| blockage discounts | Blockage discounts are sometimes applied when the subject asset represents a large block of shares in a publicly-traded security such that an owner would not be able to quickly sell the block in the public market without negatively influencing the publicly-traded price. Blockage discounts may be quantified using any reasonable method but typically a model is used that considers the length of time over which a participant could sell the subject shares without negatively impacting the publicly-traded price (ie, selling a relatively small portion of the security's typical daily trading volume each day). Under certain bases of value, particularly fair value for financial reporting purposes, blockage discounts are prohibited. | IVS 2017, IVS 105, 30.17 (c) |
| book value | Book value generally refers to the value recorded in the entities' records ... | GFSM 2014 glossary, 3.115 |
| borrowing costs | Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. | IPSAS 5 Paragraph 5 |
| carrying amount | <p>Carrying amount (of an intangible asset): The amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses. [IPSAS 31 paragraph 16]</p> <p>Carrying amount (of investment property): The amount at which an asset is recognized in the statement of financial position. [IPSAS 16 paragraph 7]</p> <p>Carrying amount (of property, plant, and equipment) The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses. [IPSAS 17 paragraph 13]</p> <p>Carrying amount of a liability The amount at which a liability is recognized in the statement of financial position. [IPSAS 10 paragraph 7]</p> <p>Carrying amount of an asset: The amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon. [IPSAS 10.7]</p> | IPSASs (See references with definitions) |
| cash-generating assets | Cash-generating assets are assets held with the primary objective of generating a commercial return. | IPSAS 21, paragraph 14 |
| cash-generating unit | A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. | IPSAS 26, paragraph 13 |
| closing rate | Closing rate is the spot exchange rate at the reporting date. | IPSAS 4, paragraph 10 |

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| Term | Definition | Source |
|--|--|---|
| comparable listings method | If few recent transactions have occurred, the valuer may consider the prices of identical or similar assets that are listed or offered for sale, provided the relevance of this information is clearly established, critically analysed and documented. This is sometimes referred to as the comparable listings method and should not be used as the sole indication of value but can be appropriate for consideration together with other methods. | IVS 2017, IVS 105, 30.3. |
| comparable transactions method | The comparable transactions method, also known as the guideline transactions method, utilises information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value. | IVS 2017, IVS 105, IVS 2017, <i>(See further description in IVS 2017 chapter 10.)</i> |
| consideration received to assume the obligations | Consideration received to assume the obligations is the cash or cash equivalents, or the value of the other consideration received at the time the liabilities are incurred. | Conceptual Framework, paragraph 7.70 |
| constant growth model | Gordon Growth Model/Constant Growth Model: The constant growth model assumes that the asset grows (or declines) at a constant rate into perpetuity. | IVS 2017, IVS 105, 50.23. |
| consumption | The activity of consumption consists of the use of goods and services for the satisfaction of individual or collective human needs or wants. | SNA 2008, 9.39 |
| consumption of fixed capital | Consumption of fixed capital is the decline, during the course of the reporting period, in the current value of the stock of fixed assets owned and used by a government unit as a result of physical deterioration, normal obsolescence, or normal accidental damage | GFSM 2014 glossary, 6.53 |
| consumption of fixed capital | Consumption of fixed capital is the decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage. | SNA 2008, 6.240, 10.25 |
| consumption of goods and services | Consumption of goods and services is the act of completely using up the goods and services in a process of production or for the direct satisfaction of human needs or wants. | SNA 2008, 9.39 |
| control premiums and discounts for lack of control | (b) Control Premiums (sometimes referred to as Market Participant Acquisition Premiums or MPAPs) and Discounts for Lack of Control (DLOC) are applied to reflect differences between the comparables and the subject asset with regard to the ability to make decisions and the changes that can be made as a result of exercising control. | IVS 2017, IVS 105, 30.17 (b) |
| cost | The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. | IPSAS 16, paragraph 7 |
| cost approach | A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). | IFRS 13, Appendix A |

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| Term | Definition | Source |
|------------------------------------|--|---|
| cost approach | The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence. | IVS 2017, IVS 105, 60.1 (Subsequent paragraphs relevant to understanding.) |
| cost approach method | Broadly, there are three cost approach methods: (a) replacement cost method: a method that indicates value by calculating the cost of a similar asset offering equivalent utility, (b) reproduction cost method: a method under the cost that indicates value by calculating the cost to recreating a replica of an asset, and (c) summation method: a method that calculates the value of an asset by the addition of the separate values of its component parts. | IVS 2017, IVS 105, 70.1 |
| cost incurred on their acquisition | Cost incurred on their acquisition is the consideration given to acquire or develop assets, which is the cash or cash equivalents or the value of the other consideration given, at the time of their acquisition or development. | Definition derived from Conceptual Framework paragraphs 7.13-7.14 |
| cost of fulfillment | Cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. (Narrative: Cost of Fulfillment is likely to be the only feasible measurement basis for settling many liabilities, especially where there is no transaction price and no realistic likelihood of a third party assuming the liability.) | Conceptual Framework Paragraph 7.74 |

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| Term | Definition | Source |
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| cost of release | <p>Cost of release is the term used in the context of liabilities to refer to the same concept as “net selling price” in the context of assets. Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Where there is more than one way of securing release from the liability, the cost of release is that of the lowest amount—this is consistent with the approach for assets, where net selling price would not reflect the amount that would be received on sale to a scrap dealer, if a higher price could be obtained from sale to a purchaser who would use the asset.</p> <p>For some liabilities, particularly in the public sector, transfer of a liability is not practically possible and cost of release will therefore be the amount that the creditor will accept in settlement of its claim. This amount will be known if it is specified in the agreement with the creditor—for example, where a contract includes a specific cancellation clause.</p> <p>In some cases there may be evidence of the price at which a liability may be transferred—for example, in the case of some pension liabilities. Transferring a liability may be distinguished from entering into an agreement with another party that will fulfill the entity’s obligation or bear all the costs stemming from a liability. For a liability to be transferred it is necessary that all of the creditor’s rights against the entity are extinguished. If this is not the effect of an arrangement, the liability remains a liability of the entity.</p> | Conceptual Framework Paragraphs 7.82 to 7.84 |
| costs of disposal | Costs of disposal are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. | IPSAS 21, paragraph 14 |
| costs of ownership transfer | Costs of ownership transfer are the costs associated with acquiring and disposing of nonfinancial assets (other than inventories) | GFSM 2014 glossary, 8.6 |
| costs of ownership transfer ¹⁶ | The costs of ownership transfer consist of the following kinds of items (i) All professional charges or commissions incurred by both units acquiring or disposing of an asset such as fees paid to lawyers, architects, surveyors, engineers and valuers, and commissions paid to estate agents and auctioneers. (ii) Any trade and transport costs separately invoiced to the purchaser, (iii) All taxes payable by the unit acquiring the asset on the transfer of ownership of the asset. (iv) Any tax payable on the disposal of an asset. (v) Any delivery and installation or disinstallation costs not included in the price of the asset being acquired or disposed of. (vi) Any terminal costs incurred at the end of an asset’s life such as those required to render the structure safe or to restore the environment in which it is situated. | SNA 2008, 10.51 |

¹⁶ This term appears to be the SNA equivalent to “transaction costs”.

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| Term | Definition | Source |
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| costs to sell | Costs to sell area the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge. | IPSAS 27, paragraph 9 |
| credit risk | Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. | IPSAS 30, paragraph 8 |
| currency risk | Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. | IPSAS 30, paragraph 8 |
| current replacement cost | Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date. | IPSAS 12, paragraph 9 |
| current use (existing use) | Current use/existing use is the current way an asset, liability, or group of assets and/or liabilities is used. The current use may be, but is not necessarily, also the highest and best use. | IVS 2017, IVS 104, 150.1 |
| deemed cost | An amount used as a surrogate for acquisition cost or depreciated cost at a given date. | IPSAS 33, paragraph 9 |
| depreciable amount | The cost of an asset, or other amount substituted for cost, less its residual value. | IPSAS 17, paragraph 13 |
| depreciation | The systematic allocation of the depreciable amount of an asset over its useful life. 17.13 | IPSAS 17 paragraph 13 |
| depreciation | In the context of the cost approach, "depreciation" refers to adjustments made to the estimated cost of creating an asset of equal utility to reflect the impact on value of any obsolescence affecting the subject asset. This meaning is different from the use of the word in financial reporting or tax law where it generally refers to a method for systematically expensing capital expenditure over time. | IVS 2017, IVS 105, 80.1 |
| derecognition | Derecognition is the removal of a previously recognized financial asset or financial liability from an entity's statement of financial position. | IPSAS 29, paragraph 10 |
| discount for lack of marketability | A discount for lack of marketability (DLOM) reflects the concept that when comparing otherwise identical assets, a readily marketable asset would have a higher value than an asset with a long marketing period or restrictions on the ability to sell the asset. For example, publicly-traded securities can be bought and sold nearly instantaneously while shares in a private company may require a significant amount of time to identify potential buyers and complete a transaction. | IVS 2017, IVS 105, 30.17 (a) |

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| Term | Definition | Source |
|-----------------------------------|--|--|
| discount rate | <p>The rate at which the forecast cash flow is discounted should reflect not only the time value of money, but also the risks associated with the type of cash flow and the future operations of the asset.</p> <p>Valuers may use any reasonable method for developing a discount rate. While there are many methods for developing or determining the reasonableness of a discount rate, a non-exhaustive list of common methods includes:</p> <ul style="list-style-type: none"> (a) the capital asset pricing model (CAPM), (b) the weighted average cost of capital (WACC), (c) the observed or inferred rates/yields, (d) the internal rate of return (IRR), (e) the weighted average return on assets (WARA), and (f) the build-up method (generally used only in the absence of market inputs). | IVS 2017, IVS 105, 50.29-50.30 (See also subsequent paragraphs.) |
| discounted cash flow (DCF) method | <p>Under the discounted cash flow (DCF) method the forecasted cash flow is discounted back to the valuation date, resulting in a present value of the asset.</p> <p>In some circumstances for long-lived or indefinite-lived assets, DCF may include a terminal value which represents the value of the asset at the end of the explicit projection period. In other circumstances, the value of an asset may be calculated solely using a terminal value with no explicit projection period. This is sometimes referred to as an income capitalisation method.</p> <p>The key steps in the DCF method are:</p> <ul style="list-style-type: none"> (a) choose the most appropriate type of cash flow for the nature of the subject asset and the assignment (ie, pre-tax or post-tax, total cash flows or cash flows to equity, real or nominal, etc), (b) determine the most appropriate explicit period, if any, over which the cash flow will be forecast, (c) prepare cash flow forecasts for that period, (d) determine whether a terminal value is appropriate for the subject asset at the end of the explicit forecast period (if any) and then determine the appropriate terminal value for the nature of the asset, (e) determine the appropriate discount rate, and (f) apply the discount rate to the forecasted future cash flow, including the terminal value, if any. | IVS 2017, IVS 105, 50.2-50.4 |
| economic benefits | <p>Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:</p> <ul style="list-style-type: none"> • An asset's use in the production and sale of services; or • The direct exchange of an asset for cash or other resources; | Conceptual Framework, paragraph 5.10 |

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| Term | Definition | Source |
|---------------------------|--|--|
| economic life | <p>Economic life is either:</p> <p>(a) The period over which an asset is expected to yield economic benefits or service potential to one or more users; or</p> <p>(b) The number of production or similar units expected to be obtained from the asset by one or more users.</p> | IPSAS 13, paragraph 8 |
| effective interest method | <p>Effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest revenue or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IPSAS 9, <i>Revenue from Exchange Transactions</i>), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).</p> | IPSAS 29, paragraph 10 |
| entity-specific factors | <p>For most bases of value, the factors that are specific to a particular buyer or seller and not available to participants generally are excluded from the inputs used in a market-based valuation. Examples of entity-specific factors that may not be available to participants include:</p> <p>(a) additional value or reduction in value derived from the creation of a portfolio of similar assets,</p> <p>(b) unique synergies between the asset and other assets owned by the entity,</p> <p>(c) legal rights or restrictions applicable only to the entity,</p> <p>(d) tax benefits or tax burdens unique to the entity, and</p> <p>(e) an ability to exploit an asset that is unique to that entity.</p> | IVS 2017, IVS 104, 180.1 (See also 180.2 – 180.3.) |
| entity-specific measures | <p>Entity-specific measures reflect the economic and current policy constraints that affect the possible uses of an asset and the settlement of a liability by an entity.</p> <p>[Narrative: Entity-specific measures may reflect economic opportunities that are not available to other entities and risks that are not experienced by other entities.]</p> | Conceptual Framework Paragraph 7.11 |

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| Term | Definition | Source |
|---|---|--|
| entity-specific value | An entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability. | IPSAS 17, paragraph 13 |
| entry price | The price paid to acquire an asset or received to assume a liability in an exchange transaction. | IFRS 13, Appendix A |
| entry value | An entry value reflects the cost of purchase for assets and, for liabilities, relates to the transaction under which an obligation is received or the amount that an entity would accept to assume a liability. [Narrative: Historical cost and replacement cost are entry values. In a diversified economy entry and exit prices differ as entities typically: <ul style="list-style-type: none"> • Acquire assets tailored to the entity's particular operating requirements for which other market participants would be unwilling to pay a similar price; and • Incur transaction costs on acquisition.] | Conceptual Framework Paragraphs 7.8 to 7.9 |
| equitable value | Equitable Value is the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties. <i>(See further description in IVS 2017 paragraphs 50.1-50.4.)</i> | IVS 2017, IVS 104, 50.1 |
| equity method (relating to interests in other entities) | Method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit | IPSAS 36, paragraph 8 |
| exchange difference | The difference resulting from translating a given number of units of one currency into another currency at different exchange rates | IPSAS 4, paragraph 10 |
| exchange rate | The ratio of exchange for two currencies. | IPSAS 4, paragraph 10 |
| existing use | (See IVS definition for "current use".) | See "current use" |
| exit price | The price that would be received to sell an asset or paid to transfer a liability. | IFRS 13, Appendix A |
| exit values | Exit values reflect the economic benefits from sale of an asset and also the amount that will be derived from use of the asset, and, for liabilities, the amount required to fulfil an obligation or the amount required to release the entity from an obligation. | Conceptual Framework Paragraphs 7.8 to 7.9 |
| expenditures on goods and services | Expenditures on goods and services are defined as the values of the amounts that buyers pay, or agree to pay, to sellers in exchange for goods or services that sellers provide to them or to other institutional units designated by the buyers. | SNA 2008, 9.32 |

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| Term | Definition | Source |
|----------------------------------|---|---|
| fair value | Fair value is a market-equivalent value defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction | GFSM 2014 glossary, 3.115 |
| fair value | The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. | IFRS 13, paragraph 9 and Appendix A ¹⁷ |
| fair value | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. | IPSAS 9, paragraph 11 |
| fair value less costs to sell | The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. | IPSAS 21, paragraph 14 |
| forced sale | The term "forced sale" is often used in circumstances where a seller is under compulsion to sell and that, as a consequence, a proper marketing period is not possible and buyers may not be able to undertake adequate due diligence. ...A "forced sale" is a description of the situation under which the exchange takes place, not a distinct basis of value. | IVS 2017, IVS 104, 170.1 (See also 170.2-170.5.) |
| guaranteed residual value | (a) For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and (b) For a lessor, that part of the residual value that is guaranteed by the lessee, or by a third party unrelated to the lessor, that is financially capable of discharging the obligations under the guarantee. | IPSAS 13, paragraph 8 |
| guideline publicly-traded method | The guideline publicly-traded method utilises information on publicly-traded comparables that are the same or similar to the subject asset to arrive at an indication of value. | IVS 2017, IVS 105, 30.9 (See further description in IVS 2017 chapter 10.) |
| highest and best use | The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used. | IFRS 13, Appendix A |
| highest and best use | Highest and best use is the use, from a participant perspective, that would produce the highest value for an asset ¹⁸ . Although the concept is most frequently applied to non-financial assets as many financial assets do not have alternative uses, there may be circumstances where the highest and best use of financial assets needs to be considered. | IVS 2017, IVS 104, 140.1 (Also, see 140.2- 140.5.) |

¹⁷ Note that IFRS as a whole provides further information, essential to a full understanding of the meaning of "fair value" in this Standard.

¹⁸ Note that the IVS defines "asset" to mean either an asset or a liability.

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| Term | Definition | Source |
|--|---|---|
| historic cost | Historic cost, in its strict sense, reflects the cost at the time of acquisition, but sometimes it may also reflect occasional revaluations | GFSM 2014 glossary, 3.115 |
| historical cost | Historical cost for an asset is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development. (Narrative: Historical cost is a measurement basis that is strongly related to the accountability objective of financial reporting.) Historical cost for a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred. | Conceptual Framework Paragraphs 7.13 and 7.70 |
| impairment | A loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. | IPSAS 21, paragraph 14 |
| impairment loss of a cash-generating asset | The amount by which the carrying amount of an asset exceeds its recoverable amount. | IPSAS 17, paragraph 13 |
| impairment loss of a non-cash-generating asset | The amount by which the carrying amount of an asset exceeds its recoverable service amount. | IPSAS 17, paragraph 13 |
| income approach | Valuation techniques that convert future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. | IFRS 13, Appendix A |
| income approach | The income approach provides an indication of value by converting future cash flow to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset. | IVS 2017, IVS 105, 40.1 |
| income approach methods | Income approach methods are ways to implement the income approach, and are [all] effectively based on discounting future amounts of cash flow to present value. They are variations of the Discounted Cash Flow (DCF) method. | IVS 2017, IVS 105, 50.1. |
| initial direct costs | Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors. | IPSAS 13, paragraph 8 |

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| Term | Definition | Source |
|---|---|---------------------------|
| inputs ¹⁹ | The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following: (a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and (b) the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. | IFRS 13, Appendix A |
| interest | Interest is a form of investment income that is receivable by the owners of certain kinds of financial assets (SDRs, deposits, debt securities, loans, and other accounts receivable) for putting these financial assets and other resources at the disposal of another institutional unit. | GFSM 2014 glossary, 5.108 |
| interest rate implicit in the lease | The discount rate that, at the inception of the lease, causes the aggregate present value of: (a) The minimum lease payments; and (b) The unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset, and (ii) any initial direct costs of the lessor. | IPSAS 13, paragraph 8 |
| interest rate risk | The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. | IPSAS 30, paragraph 8 |
| investment value | Investment Value is the value of an asset to a particular owner or prospective owner for individual investment or operational objectives. <i>(See further description in IVS 2017 paragraph 60.2.)</i> | IVS 2017, IVS 104, 60.1. |
| lease term | The non-cancelable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. | IPSAS 13, paragraph 8 |
| lessee's incremental borrowing rate of interest | The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset. | IPSAS 13, paragraph 8 |
| level 1 inputs | Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. | IFRS 13, Appendix A |

¹⁹ Note that RPG 3 defines inputs differently for the purposes of reporting service performance information.

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| Term | Definition | Source |
|-------------------|--|--------------------------|
| level 2 inputs | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. | IFRS 13, Appendix A |
| level 3 inputs | Unobservable inputs for the asset or liability. | IFRS 13, Appendix A |
| liquidation value | Liquidation Value is the amount that would be realised when an asset or group of assets are sold on a piecemeal basis. Liquidation Value should take into account the costs of getting the assets into saleable condition as well as those of the disposal activity. Liquidation Value can be determined under two different premises of value: (a) an orderly transaction with a typical marketing period (see section 160), or (b) a forced transaction with a shortened marketing period (see section 170). | IVS 2017, IVS 104, 80.1 |
| liquidity | The liquidity of an asset is a measure of how easily and quickly it can be transferred in return for cash or a cash equivalent. | IVS 2017, IVS 500, 110.2 |
| liquidity risk | The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. | IPSAS 30, paragraph 8 |
| market activity | Market activity is a measure of the volume of trading at any given time, and is a relative rather than an absolute measure. | IVS 2017, IVS 500, 110.2 |
| market approach | A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business. | IFRS 13, Appendix A |
| market approach | The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. <i>(See further description in IVS 2017 chapter 10.)</i> | IVS 2017, IVS 105, 20.1. |

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| Term | Definition | Source |
|--------------------------------|---|--|
| market participant | <p>Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:</p> <p>(a) They are independent of each other, ie they are not related parties as defined in IAS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.</p> <p>(b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.</p> <p>(c) They are able to enter into a transaction for the asset or liability.</p> <p>(d) They are willing to enter into a transaction for the asset or liability, ie they are motivated but not forced or otherwise compelled to do so.</p> | IFRS 13, Appendix A |
| market prices | Market prices refer to current exchange value—that is, the value at which goods, services, labor, or assets are exchanged or else could be exchanged for cash (currency or transferable deposits) | GFSM 2014 glossary, 3.107 |
| market prices for transactions | Market prices for transactions are defined as amounts of money that willing buyers pay to acquire something from willing sellers; the exchanges are made between independent parties and on the basis of commercial considerations only, sometimes called “at arm’s length” | GFSM 2014 glossary, 3.108 |
| market rent | Market Rent is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. <i>(See further description in IVS 2017 paragraphs 40.2-40.6.)</i> | IVS 2017, IVS 104, 40.1 |
| market risk | The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk. | IPSAS 30, paragraph 8 |
| market value | <p>Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.</p> <p>Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm’s length transaction.</p> | Conceptual Framework Paragraphs 7.24 and 7.80. |

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| Term | Definition | Source |
|----------------------------|--|------------------------------------|
| market value | Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion ²⁰ . | IVS 2017, IVS 104, 30.1. |
| market-corroborated inputs | Inputs that are derived principally from or corroborated by observable market data by correlation or other means. | IFRS 13, Appendix A |
| matrix pricing | A subset of the comparable transactions method is matrix pricing, which is principally used to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities and their attributes (ie, yield). | IVS 2017, IVS 105, 30.5 |
| measurement | Measurement is the attachment of a monetary value to an item (an asset or liability), by choosing an appropriate measurement basis that meets the measurement objective, and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements. | Conceptual Framework Paragraph 6.7 |

²⁰ Note that IVS 2017 paragraphs 30.1 to 30.7 provide further information, which appear to be essential to a full understanding of the meaning of "market value" in this IVS. Those terms that have been highlighted and described, in a quasi-definitional mode, have been included in this table. However other accompanying paragraphs have not been included.

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| Term | Definition | Source |
|------------------------------|--|-------------------------------------|
| minimum lease payments | <p>The payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:</p> <ul style="list-style-type: none"> (a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) For a lessor, any residual value guaranteed to the lessor by: <ul style="list-style-type: none"> (i) The lessee; (ii) A party related to the lessee; or (iii) An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. <p>However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.</p> | IPSAS 13, paragraph 8 |
| most advantageous market | The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs. | IFRS 13, Appendix A |
| net realizable value | The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution. | IPSAS 12, paragraph 9 |
| net selling price | Net selling price is the amount that the entity can obtain from sale of the asset, after deducting the costs of sale. | Conceptual Framework Paragraph 7.49 |
| nominal value | Nominal value at any moment in time is the amount that the debtor owes to the creditor | GFSM 2014 glossary, 3.115 |
| non-entity-specific measures | Non-entity-specific measures reflect general market opportunities and risks. | Conceptual Framework Paragraph 7.11 |
| non-performance risk | The risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk. | IFRS 13, Appendix A |
| objective of measurement | The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes. | Conceptual Framework Paragraph 7.2 |

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| Term | Definition | Source |
|---|--|-------------------------------------|
| observable inputs | Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. | IFRS 13, Appendix A |
| observable measure | An observable measure is a measure that is observable in an open, active and orderly market. | Conceptual Framework Paragraph 7.10 |
| obsolescence (cost approach and depreciation) | <p>Depreciation adjustments are normally considered for the following types of obsolescence, which may be further divided into subcategories when making adjustments:</p> <p>(a) Physical obsolescence: Any loss of utility due to the physical deterioration of the asset or its components resulting from its age and usage.</p> <p>(b) Functional obsolescence: Any loss of utility resulting from inefficiencies in the subject asset compared to its replacement such as its design, specification or technology being outdated.</p> <p>(c) External or economic obsolescence: Any loss of utility caused by economic or locational factors external to the asset. This type of obsolescence can be temporary or permanent.</p> | IVS 2017, IVS 105, 80.2. |
| orderly liquidation | An orderly liquidation describes the value of a group of assets that could be realised in a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis. | IVS 2017, IVS 104, 160.1. |
| orderly transaction | A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale). | IFRS 13, Appendix A |
| other price risk | The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. | IPSAS 30, paragraph 8 |
| participant | The word “participant” refers to the relevant participants pursuant to the basis (or bases) of value used in a valuation engagement (see IVS 104 Bases of Value). Different bases of value require valuers to consider different perspectives, such as those of “market participants” (eg, Market Value, IFRS Fair Value) or a particular owner or prospective buyer (eg, Investment Value). | IVS 2017, Glossary, 20.6. |

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| Term | Definition | Source |
|--|---|---|
| premise of value (or assumed use) | A Premise of Value or Assumed Use describes the circumstances of how an asset or liability is used. Different bases of value may require a particular Premise of Value or allow the consideration of multiple Premises of Value. Some common Premises of Value are: (a) highest and best use, (b) current use/existing use, (c) orderly liquidation, and (d) forced sale. | IVS 2017, IVS 104, 130.1. |
| present value | Present value is the value today of a future payment or stream of payments discounted at some appropriate compounded interest rate | GFSM 2014 glossary, GFSM 2014 glossary, |
| present value of a defined benefit obligation | The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. | IPSAS 39, paragraph 8 |
| principal market | The market with the greatest volume and level of activity for the asset or liability. | IFRS 13, Appendix A |
| prospective financial information (PFI) | Prospective financial information (PFI) consists of projected income/inflows and expenditure/outflows), used to construct cash flow for the explicit forecast period. | IVS 2017, IVS 105, 50.12 (adapted) |
| purchaser's price | The purchaser's price is the amount paid by the purchaser, excluding any VAT or similar tax deductible by the purchaser, in order to take delivery of a unit of a good or service at the time and place required by the purchaser. The purchaser's price of a good includes any transport charges paid separately by the purchaser to take delivery at the required time and place. | SNA 2008, 6.64 |
| purpose | The word "purpose" refers to the reason(s) a valuation is performed. Common purposes include (but are not limited to) financial reporting, tax reporting, litigation support, transaction support, and to support secured lending decisions. | IVS 2017, Glossary, 20.7 |
| recoverable amount (of an asset or a cash-generating unit) | The higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use. | IPSAS 26, paragraph 13 |
| recoverable amount (of property, plant, and equipment) | The higher of a cash-generating asset's fair value less costs to sell and its value in use. | IPSAS 17, paragraph 13 |
| recoverable service amount | The higher of a non-cash-generating asset's fair value less costs to sell and its value in use. | IPSAS 21, paragraph 14 |

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| Term | Definition | Source |
|---|--|--|
| remeasurements of the net defined benefit liability (asset) | Comprise: <ul style="list-style-type: none"> (a) Actuarial gains and losses; (b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). | IPSAS 39, paragraph 8 |
| replacement cost | Replacement cost is the optimized depreciated replacement cost of an asset (Narrative: Replacement cost is also the most economic cost required for the entity to replace the service potential of an asset. Depreciated replacement cost is a measurement basis in its own right and is likely to be an appropriate current value measurement basis for specialized operational assets.) | Conceptual Framework Paragraphs 7.40, 7.47 and footnote 14 |
| replacement cost method | Generally, replacement cost is the cost that is relevant to determining the price that a participant would pay as it is based on replicating the utility of the asset, not the exact physical properties of the asset. Usually replacement cost is adjusted for physical deterioration and all relevant forms of obsolescence. After such adjustments, this can be referred to as depreciated replacement cost. The key steps in the replacement cost method are: <ul style="list-style-type: none"> (a) calculate all of the costs that would be incurred by a typical participant seeking to create or obtain an asset providing equivalent utility, (b) determine whether there is any depreciation related to physical, functional and external obsolescence associated with the subject asset, and (c) deduct total depreciation from the total costs to arrive at a value for the subject asset. The replacement cost is generally that of a modern equivalent asset, which is one that provides similar function and equivalent utility to the asset being valued, but which is of a current design and constructed or made using current cost-effective materials and techniques. | IVS 2017, IVS 105, 70.2-70.5 |

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| Term | Definition | Source |
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| reproduction cost method | <p>70.6. Reproduction cost is appropriate in circumstances such as the following:</p> <ul style="list-style-type: none"> (a) the cost of a modern equivalent asset is greater than the cost of recreating a replica of the subject asset, or (b) the utility offered by the subject asset could only be provided by a replica rather than a modern equivalent. <p>70.7. The key steps in the reproduction cost method are:</p> <ul style="list-style-type: none"> (a) calculate all of the costs that would be incurred by a typical participant seeking to create an exact replica of the subject asset, (b) determine whether there is any depreciation related to physical, functional and external obsolescence associated with the subject asset, and (c) deduct total depreciation from the total costs to arrive at a value for the subject asset. | IVS 2017, IVS 105, 70.6-70.7 |
| risk premium | Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'. | IFRS 13, Appendix A |
| service cost | <p>Comprises:</p> <ul style="list-style-type: none"> (a) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; (b) Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and (c) Any gain or loss on settlement. | IPSAS 39, paragraph 8 |
| service potential | <p>Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.</p> <p>Public sector assets that embody service potential may include recreational, heritage, community, defense and other assets which are held by governments and other public sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.</p> | Conceptual Framework, paragraphs 5.8–5.9 |
| spot exchange rate | The exchange rate for immediate delivery. | IPSAS 4, paragraph 10 |

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| Term | Definition | Source |
|-------------------|--|----------------------------------|
| summation method | <p>70.8. The summation method, also referred to as the underlying asset method, is typically used for investment companies or other types of assets or entities for which value is primarily a factor of the values of their holdings.</p> <p>70.9. The key steps in the summation method are:</p> <p>(a) value each of the component assets that are part of the subject asset using the appropriate valuation approaches and methods, and</p> <p>(b) add the value of the component assets together to reach the value of the subject asset.</p> | IVS 2017, IVS 105, 70.8-70.9 |
| synergistic value | <p>Synergistic Value is the result of a combination of two or more assets or interests where the combined value is more than the sum of the separate values. If the synergies are only available to one specific buyer then Synergistic Value will differ from Market Value, as the Synergistic Value will reflect particular attributes of an asset that are only of value to a specific purchaser. The added value above the aggregate of the respective interests is often referred to as “marriage value.”</p> | IVS 2017, IVS 104, 70.1 |
| terminal value | <p>Where the asset is expected to continue beyond the explicit forecast period, valuers must estimate the value of the asset at the end of that period. The terminal value is then discounted back to the valuation date, normally using the same discount rate as applied to the forecast cash flow.</p> <p>The terminal value should consider:</p> <p>(a) whether the asset is deteriorating/finite-lived in nature or indefinite-lived, as this will influence the method used to calculate a terminal value,</p> <p>(b) whether there is future growth potential for the asset beyond the explicit forecast period,</p> <p>(c) whether there is a pre-determined fixed capital amount expected to be received at the end of the explicit forecast period,</p> <p>(d) the expected risk level of the asset at the time the terminal value is calculated,</p> <p>(e) for cyclical assets, the terminal value should consider the cyclical nature of the asset and should not be performed in a way that assumes “peak” or “trough” levels of cash flows in perpetuity, and</p> <p>(f) the tax attributes inherent in the asset at the end of the explicit forecast period (if any) and whether those tax attributes would be expected to continue into perpetuity.</p> | IVS 2017, IVS 105, 50.20 – 50.21 |
| transaction costs | <p>The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:</p> <p>(a) They result directly from and are essential to that transaction.</p> <p>(b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in IFRS 5).</p> | IFRS 13, Appendix A |

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| Term | Definition | Source |
|--|--|--------------------------|
| transaction costs | Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see [IPSAS 29] Appendix A paragraph AG26). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument. | IPSAS 29, paragraph 10 |
| transaction costs | The seller's costs of sale or the buyer's costs of purchase and any taxes payable by either party as a direct result of the transaction. (As indicated by the following sentence; "Most bases of value represent the estimated exchange price of an asset without regard to the seller's costs of sale or the buyer's costs of purchase and without adjustment for any taxes payable by either party as a direct result of the transaction.") | IVS 2017, IVS 104, 210.1 |
| transport costs | The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market. | IFRS 13, Appendix A |
| unearned finance revenue | The difference between: (a) The gross investment in the lease; and (b) The net investment in the lease. | IPSAS 13, paragraph 8 |
| unguaranteed residual value | That portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor. | IPSAS 13, paragraph 8 |
| unit of account | The level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes. | IFRS 13, Appendix A |
| useful life (of a lease) | The estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity. | IPSAS 13, paragraph 8 |
| useful life (of a non-cash-generating asset) | Either: (a) The period of time over which an asset is expected to be used by the entity; or (b) The number of production or similar units expected to be obtained from the asset by the entity. | IPSAS 21, paragraph 14 |
| useful life (of property, plant, and equipment or an intangible asset) | Either: (a) The period over which an asset is expected to be available for use by an entity; or (b) The number of production or similar units expected to be obtained from the asset by an entity. | IPSAS 17, paragraph 13 |

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| Term | Definition | Source |
|---|---|-------------------------------------|
| value in use | <p>Value in use is the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.</p> <p>(Narrative: The Conceptual Framework explains that value in use is appropriate where it is less than the replacement cost of the resource and greater than the net selling price. The operationalization of value in use for non-cash-generating assets involves the use of replacement cost as a surrogate.)</p> | Conceptual Framework Paragraph 7.58 |
| value in use of a cash-generating asset | flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life | IPSAS 26, paragraph 13 |
| value in use of a non-cash-generating asset | The present value of the asset's remaining service potential. | IPSAS 21, paragraph 14 |
| weight | The word "weight" refers to the amount of reliance placed on a particular indication of value in reaching a conclusion of value (eg, when a single method is used, it is afforded 100% weight). | IVS 2017, Glossary, 20.14 |
| weighting | The word "weighting" refers to the process of analysing and reconciling differing indications of values, typically from different methods and/or approaches. This process does not include the averaging of valuations, which is not acceptable. | IVS 2017, Glossary, 20.15. |
| written-down replacement cost | Written-down replacement cost is the current acquisition price of an equivalent new asset minus the accumulated consumption of fixed capital, amortization, or depletion | GFSM 2014 glossary, 3.115 |

CONSULTATION PAPER CHAPTERS 1–3

Draft Chapter 1, Introduction

The Purpose of Measurement in Public Sector Financial Statements

- 1.1. General Purpose Financial Reports (GPFRs) provide information to users for the purpose of accountability and decision-making. The purpose of measurement in public sector financial statements is to provide information about assets and liabilities that users' need for accountability and decision-making.
- 1.2. Measurement that fairly reflects the cost of services, operational capacity and financial capacity of a public sector entity supports users' assessments of such matters as:
 - a) Whether the entity provided its services to constituents in an efficient and effective manner;
 - b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;
 - c) To what extent the burden on future-year taxpayers of paying for current services has changed; and
 - d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.

Service Delivery Objective and Public Sector Assets and Liabilities

- 1.3. Public sector measurement should take into account both the primary objective of most public entities and the type of assets and liabilities that such entities hold. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. The type of assets and liabilities that a public sector entity holds is likely to reflect this objective. For example, in the public sector the primary reason for holding property, plant, and equipment and other assets is for their service potential rather than their ability to generate cash flows. Because of the types of services provided, a significant proportion of assets used by public sector entities is specialized—for example, roads and military assets. There may be a limited market for such assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets.
- 1.4. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.
- 1.5. Governments and other public sector entities incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programs that operate to deliver social benefits. Liabilities may also arise from governments' role as a lender of last resort and from any obligations to transfer resources to those affected by disasters. In addition many governments have obligations that arise from monetary activities such as currency in circulation.

Measurement of Assets and Liabilities for Financial Reporting by Public Sector Entities

- 1.6. Chapter 7 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) addresses measurement of assets and liabilities in the financial statements. In developing Chapter 7 the IPSASB took into account the special characteristics of the public sector, the needs of users of GPFs in the public sector, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.
- 1.7. Where an asset is held primarily for its service potential, rather than its ability to generate future economic benefits, its measurement should provide information on the value of the asset's service potential to the entity. This was an important consideration for the IPSASB, as it developed concepts for public sector measurement and identified appropriate measurement bases for use in the public sector.
- 1.8. The objective of measurement and the measurement bases in Chapter 7 of the *Conceptual Framework* address public sector financial reporting needs. They differ from objectives and measurement bases developed for private sector entities that operate to make a profit and value assets and liabilities in terms of their ability to generate future economic benefits, which focuses on future cash flows.

Background to the Consultation Paper

- 1.9. After completing the *Conceptual Framework* in 2014, the IPSASB recognized a need to address measurement requirements in IPSAS. In their responses to the IPSASB's 2014 strategy and work plan consultation, constituents supported a Public Sector Measurement project.
- 1.10. The Public Sector Measurement project began in 2017, with the rationale that measurement requirements in IPSASs should be amended to align them with the *Conceptual Framework's* measurement concepts. The project's objectives were to:
 - (a) Issue amended IPSASs with revised requirements for measurement at initial recognition, subsequent measurement, and measurement-related disclosure;
 - (b) Provide more detailed guidance on the implementation of replacement cost and cost of fulfillment, and the circumstances under which these measurement bases will be used; and
 - (c) Address transaction costs and borrowing costs.

Measurement issues to address*Consistency with the Conceptual Framework*

- 1.11. When IPSASs were first developed they used measurement bases developed for private sector financial reporting and adapted them for the public sector. The IPSASB took into account public sector financial reporting needs and the special characteristics of the public sector in its Conceptual Framework coverage of measurement. Measurement requirements in IPSAS now need to be aligned with the measurement concepts in the *Conceptual Framework*. IPSAS measurement generally needs to be reviewed against the objective of measurement in the *Conceptual Framework*.

IFRS 13, Fair Value Measurement

- 1.12. Fair value is a specified measurement basis in many IPSASs. This is inconsistent with the *Conceptual Framework*, which does not include fair value as a measurement basis, although its definition of “market value” is the same as the IPSAS definition of “fair value”.
- 1.13. The International Accounting Standards Board (IASB) issued IFRS 13, *Fair Value Measurement*, in 2011. IFRS 13 defines fair value and establishes an approach to fair value measurement. The definition and approach are inconsistent with the *Conceptual Framework* and the current IPSAS definition of fair value. Because of these differences, the IPSASB decided to apply a rebuttable presumption that IPSAS references to fair value will need revision for consistency with the *Conceptual Framework*, as it developed the draft Standard, accompanying this CP.

Focus and Structure of this Consultation Paper

- 1.14. In 2017 the IPSASB decided to develop IPSAS, *Measurement*, by issuing an exposure draft (ED) at the same time as an accompanying CP. The aim of this new approach is to allow the earlier issuance of a draft IPSAS, without consequential amendments, and get feedback from constituents. This CP discusses issues that the IPSASB identifies during its development of the ED. Therefore, this CP should be read in conjunction with ED, *Measurement*, which is in Appendix C of this document.
- 1.15. This CP considers measurement in the following order:
 - Chapter 2 discusses the guidance on measurement in the *Conceptual Framework*;
 - Chapter 3 discusses transaction costs and borrowing costs;
 - Chapter 4 discusses measurement of assets;
 - Chapter 5 discusses measurement of liabilities;
 - Chapter 6 discusses application guidance for measurement of assets and liabilities; and
 - Chapter 7 discusses disclosures for measurement.

Draft Chapter 2, Conceptual Framework and Measurement

- 2.1 As noted in Chapter 1, the Conceptual Framework discusses measurement in Chapter 7, *Measurement of Assets and Liabilities in the Financial Statements*. Chapter 7 establishes the objective of measurement, which addresses the selection of measurement bases.

Selection of Measurement Bases

- 2.2 The objective of measurement is:

To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

- 2.3 The Conceptual Framework identifies the measurement bases from which a selection should be made. Those are:

Measurement Bases for Assets

Historical cost;
Market value;
Replacement cost;
Net selling price; and
Value in use.

Measurement Bases for Liabilities

Historical cost;
Cost of fulfillment;
Market value;
Cost of release; and
Assumption price.

- 2.4 The Conceptual Framework provides guidance on selection, by discussing each measurement basis in terms of:
- (a) The information it provides about the cost of services, operating capacity and financial capacity (i.e. achievement of the objective of measurement); and
 - (b) The extent to which the information provided is likely to meet the qualitative characteristics taking into account the constraints.

Factors to Consider when Selecting a Measurement Basis

- 2.5 The Conceptual Framework identifies factors for consideration when selecting a measurement basis. The factors identified include:
- (a) The nature of a measurement basis, and specifically whether it:
 - (i) Provides an entry or exit value;
 - (ii) Is observable in a market (or not); and
 - (iii) Is entity-specific (or not).

- (b) Factors related to the nature and circumstances of the asset/liability, for example, whether:
 - (i) Assets were acquired (or liabilities incurred) in a non-exchange transaction.
 - (ii) Assets are held to provide services (non-cash-generating assets), to generate a commercial return (cash-generating assets), and/or for trading or sale.
 - (iii) Assets are specialized.
 - (iv) There are restrictions on the asset/liability.
- (c) Whether a market exists for similar assets and liabilities and the type of market, for example it is open, active and orderly.

Application of Measurement Bases—Issues Arising in Practice

- 2.6 Many different issues arise in practice when applying measurement bases. For example, when applying the historical cost measurement basis to assets, there are issues related to:
 - (a) Costs to be capitalized on initial acquisition/ construction of an asset;
 - (b) Determination of unit of account (component) for subsequent depreciation or amortization;
 - (c) Determination of useful life, residual value, and depreciation or amortization method;
 - (d) Lack of initial cost, with a resulting need to determine a deemed cost, when an asset has been acquired through a non-exchange transaction or is recognized on first time adoption of accruals accounting and information on acquisition cost is missing;
 - (e) Indicators of impairment and measurement when an impairment has occurred; and
 - (f) Measurement of service potential for non-cash generating assets.
- 2.7 Where an entity applies a current value measurement basis to an asset or liability, application issues that arise include:
 - (a) Frequency of revaluations;
 - (b) Purpose of a valuation (for example, when valuing an asset, the purpose could be either to reflect the asset's existing use or its highest and best use);
 - (c) Choice of valuation methodology (for example, if a liability will be valued using a discounted cash flow then there is a choice of different methodologies for this type of valuation);
 - (d) Appropriate sources of information (inputs) for use in a revaluation (including, for example, sources to determine a discount rate or a market value for similar items);
 - (e) Impact of restrictions on valuations (for example, on an asset's use and/or disposal or the entity's ability to transfer a liability).

Draft Chapter 3, Borrowing Costs**Capitalization or Expensing Borrowing Costs**

- 3.1. IPSAS 5, *Borrowing Costs*, defines borrowing costs as interest and other expenses incurred by an entity in connection with the borrowing of funds. It requires entities to expense all borrowing costs, with the exception of costs for a “qualifying asset” during the period between acquisition/construction and active use. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. IPSAS 5 gives entities the option of capitalizing borrowing costs in these circumstances.
- 3.2. These borrowing costs are attributable to acquisition of the asset, but are not part of the asset’s purchase price. They are entity-specific costs, which depend on the entity’s financing choices. They are not a characteristic of the asset being valued. Capitalization of borrowing costs results in similar assets being measured at different amounts, because entities have different financing profiles and different ways to finance their asset acquisition and/or construction.
- 3.3. This questions also applies to subsequent measurement, when an entity revalues assets at (for example) replacement cost. Certain categories of assets, for example property, plant and equipment, are able to be revalued to a current value. The current value may be determined by using a cost-based estimate such as replacement cost. IPSAS application guidance does not address the issue of how (and whether) borrowing costs should be incorporated into the calculation of a cost-based current value. If borrowing costs must be expensed for measurement on initial recognition then it follows that no estimate of borrowing costs would be included in a cost-based revaluation. (For example, an estimate of replacement cost would not include an estimate of borrowing costs.) Alternatively, if borrowing costs are capitalized then application guidance is likely to be required, for derivation of an estimate of borrowing costs when revaluing assets at replacement cost.

Previous IPSASB Considerations: Project 2007–2009

- 3.4. The IPSASB had a project to consider treatment of borrowing costs from 2007 to 2009. The project was prompted by the International Accounting Standards Board (IASB)’s decision to change the equivalent International Financial Reporting Standard (IFRS)²¹, and remove the option of immediate recognition of borrowing costs as an expense, and require capitalization.
- 3.5. The IPSASB decided that:
 - (a) There are public sector specific reasons to diverge from IFRS in this case, one of which is the common use of centralized borrowing with many entities prohibited from borrowing on their own account;
 - (b) Expensing of borrowing costs is generally the most appropriate accounting policy; and
 - (c) Capitalization of borrowing costs should be restricted to cases where there is a direct link between the debt instrument and the qualifying asset.
- 3.6. However, after considering responses to an exposure draft²², the IPSASB decided that the borrowing cost issue should be deferred until the Conceptual Framework had been completed. Therefore IPSAS 5 continues to provide options to expense or capitalize borrowing.

²¹ IAS 23, *Borrowing Costs*.

²² Exposure draft (ED) 35, *Borrowing Costs*, was issued in September 2008, with comments requested by 7 January, 2009.

Public Sector Borrowing differs from Private Sector Borrowing

- 3.7. The IPSASB considers that there are significant differences between borrowing in the public sector and the private sector. Borrowing in the public sector is often centralized and borrowing requirements are determined for the economic entity as a whole. Borrowing may be for investing, financing or operating activities. The aggregate level of borrowing will be set in the context of political and economic factors, such as decisions on the appropriate levels of taxation. The funding allocated to specific programs and entities may be derived from a variety of sources, and consequently the resources transferred are often indistinguishable in character.
- 3.8. A feature of fiscal management in the public sector is that governments sometimes budget for deficits, occasionally for extended periods of time, and those deficits are financed by borrowing. In many jurisdictions outlays on qualifying assets are a relatively minor part of the government's annual outlays, the bulk of which are consumed by expenses, such as the payment of social benefits to individuals and households. This can be distinguished from the for-profit sector in which entities would normally budget for a loss only in unusual circumstances, and certainly not for an indefinite period. Therefore, in the public sector it is often difficult to distinguish financing from external borrowing and other sources of finance and there is often no meaningful way to attribute borrowing costs to qualifying assets.
- 3.9. Governments and other public sector entities may borrow for public policy purposes, for example they may issue debt securities to provide liquidity in the capital markets. Often these securities form the benchmark security for the bond market and a common basis for pricing other securities.

Options and their Discussion

- 3.10. This discussion considers the Conceptual Framework and the IPSASB's policies as they apply to this issue. The Conceptual Framework's objective of measurement focuses on selection of measurement bases rather than their derivation. However the underlying concerns about information that is useful for assessments of operational capacity, cost of services and financial capacity apply. In addition, the Conceptual Framework's discussion of different measurement bases carefully considers the extent to which each measurement basis is likely to provide information that achieves the qualitative characteristics, while taking into account the constraints.
- 3.11. The IPSASB has policies to pursue IFRS convergence and reduce unnecessary differences between IPSAS and GFS reporting guidelines, to the extent appropriate, which is why the discussion below explains when an option is aligned with either IFRS or GFS reporting guidelines.
- 3.12. The IPSASB has identified four options for treatment of borrowing costs for a qualifying asset during the period between acquisition/construction and active use, as shown in Table 1 below.

Agenda Item

6.3.3

Table 1: Treatment of Borrowing Costs: Options

| Borrowing costs—acquisition, construction or production of qualifying asset: | Option 1 | Option 2 | Option 3 | Option 4 |
|---|-----------------------|-----------------|-----------------------|-----------------|
| Directly attributable ► and specifically incurred | Expense or capitalize | Must capitalize | Expense or capitalize | Expense |
| Directly attributable ► but not specifically incurred | Expense or capitalize | Must capitalize | Expense | Expense |
| Borrowing costs—other | Expense | Expense | Expense | Expense |

- 3.13. Option 1 is the status quo, and would mean no change to IPSAS 5. This option allows for flexibility of accounting policy. An entity is able to choose between an accounting policy to capitalize (equivalent to Option 2, see below) or expense all borrowing costs (equivalent to Option 4).
- 3.14. Option 2 requires capitalization and removes the choice to expense. Capitalization applies only during acquisition, construction or production of the qualifying asset, and the borrowings costs must be directly attributable. This option is converged with IAS 23 and provides better comparability, given that the accounting policy choice has been removed. For this option asset values will be affected by an entity's financing choices, with the result that comparability of values will be reduced, with similar assets valued at different amounts.
- 3.15. Option 3 requires that the accounting policy choice for capitalization only apply to those borrowing costs that are *both* directly attributable to, *and specifically incurred* for, acquisition, construction or production of a qualifying asset. A choice remains, although the extent of choice is narrower than is the case under Options 1 and 2, neither of which required that borrowing costs be specifically incurred before they can be capitalized. Here there must be a stronger, clearer relationship between the asset and the borrowing costs that are capitalized. The IPSASB developed this option during the 2007-09 project, in order to address concerns that the focus on borrowing costs that are "directly attributable" allows for too much preparer discretion.
- 3.16. Option 4 requires that all borrowing costs, without exception, be expensed. This is consistent with the GFS reporting guidelines treatment for borrowing costs, and provides greater comparability than any of the previous options, because there is no policy option and entities' financing choices will not impact on asset values.

Public Sector Borrowing and Capitalization of Borrowing Costs

- 3.17. The reasons for public sector borrowing outlined in paragraphs 3.7-3.9 above show that usually there is little linkage between entities' borrowings and the acquisition, construction or production of qualifying assets. For example, a government that has a policy of maintaining CU100 billion in bonds in the market, while not actually needing the cash, will find that, if it were required to capitalize borrowing costs, it would capitalize interest for any qualifying assets acquired, constructed or produced in any years in which bonds are outstanding. While it may be feasible to allocate these borrowings to qualifying assets, the IPSASB is of the view that doing so is unlikely to provide relevant and representationally faithful information or support achievement of financial reporting objectives, by enhancing either accountability or decision-making. It is also likely that the cost to do so would exceed the related benefits, if any.

- 3.18. In the public sector, controlling entities may have a large number of controlled entities. Many of these controlled entities are responsible for acquiring, constructing or producing qualifying assets. Although there will be a general policy framework, many controlled entities are likely to have their own financial management systems, reflecting their own reporting needs. Funding for such controlled entities may be by means of appropriation from a central fund without regard to whether such appropriations are financed from taxes, borrowings or other sources. Any accounting system to track directly attributable borrowing costs and their application to qualifying assets is likely to be complex and resource intensive. The IPSASB is of the view that in these cases, the costs incurred in capitalizing borrowing costs would be likely to exceed the related benefits.
- 3.19. There may be cases where public sector entities borrow specifically to finance the acquisition, construction or production of a qualifying asset, for example, where a municipality issues bonds specifically to finance an infrastructure project. In such cases capitalizing borrowing costs may be appropriate and, arguably, therefore entities should be permitted to capitalize borrowing costs specifically incurred for the acquisition, construction or production of a qualifying asset. However, because of cost-benefit considerations and issues associated with the relevance of the resulting information, arguably the capitalization of borrowing costs should not be required, but instead should be optional in cases where a public sector entity borrows specifically to finance the acquisition, construction or production of a qualifying asset.
- 3.20. Allowing entities to choose whether to expense or capitalize borrowing costs reduces comparability between entities and within the same entity. Furthermore, if borrowing costs are difficult to attribute, the representational faithfulness of the resulting information may be reduced.
- 3.21. If borrowings are limited to funds borrowed specifically for the purpose of acquiring, constructing or producing a particular qualifying asset, then this would reduce complexity, with benefits in terms of achievement of the qualitative characteristics and reduced costs. However, comparability issues would remain, because they would arise due to both an option in IPSAS and entities' different financing profiles impacting on the reported value of assets.
- 3.22. The IPSASB considers that neither requiring public sector entities to capitalize nor providing an option to capitalize borrowing costs support achievement of the qualitative characteristics. In particular, capitalizing borrowing costs appears likely to diminish the comparability of information in the financial statements. The IPSASB does not see significant, if any, benefits for achievement of the objectives of financial reporting provided by capitalization.

Preliminary View—Expense All Borrowing Costs

- 3.23. The IPSASB's preliminary view is that all borrowing costs should be expensed. This provides information that best achieves the qualitative characteristics, taking into account the constraints, while supporting the objectives of financial reporting and considerations implicit in the objective of measurement.

Preliminary View—Chapter 3

All borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs related to a qualifying asset and incurred during the period between acquisition/construction and active use.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

Agenda Paper 6.3.4: Conceptual Framework Excerpts and Cost of Fulfillment in CP, Revenue and Expenses**Excerpt from Chapter 7's Basis for Conclusions**

Initial and Subsequent Measurement

- BC7.9 A measurement basis needs to be selected both when an asset or liability is recognized for the first time—initial measurement— and when it is reported in the financial statements of a later period—subsequent measurement. Some accounting policies are expressed in a way that may suggest that different principles apply to initial and subsequent measurement. For example, an asset may initially be recognized at transaction price and subsequently at a current value. The IPSASB therefore considered whether the Conceptual Framework should discuss initial and subsequent measurement separately.
- BC7.10 One reason why different measurement bases may be specified for initial and subsequent measurement is that the basis to be used for subsequent measurement is not available at the time of initial measurement. This is particularly common in the public sector where assets are sometimes contributed, or provided on subsidized terms, or in exchange for other non-cash assets. In such a case the value of the transaction may be unknown, and if the asset is to be subsequently accounted for at an entry value such as historical cost or replacement cost, another basis has to be specified for initial measurement as a surrogate for the amount at which the asset would be stated if purchased on arm's-length terms. Surrogates may also be required for the initial measurement of assets acquired before the introduction of accrual accounting where the transaction price is not known. The use of surrogates that meet the measurement objective and the qualitative characteristics is an application of a measurement basis rather than a departure from it.
- BC7.11 Another reason for an apparent difference in initial and subsequent measurement arises where an asset is to be accounted for at a current value, and the transaction price is deemed to reflect the particular current measurement basis that will be used. In such a case, specifying that the asset is to be initially recognised at transaction price makes it clear that that application of the policy will not result in the recognition of revenue and expense on initial recognition—"day one" gains or losses. In principle, the same measurement basis is used for both initial and subsequent recognition—the requirements for each are specified differently in order to assist understanding.
- BC7.12 The IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement. Accordingly the discussion in this Chapter is applicable to both situations.

Excerpts from Chapter 7—Relevant to Use of Cost on Initial Measurement

Assets

Historical Cost

7.13 Historical cost for an asset is:

The consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

7.14 Historical cost is an entry, entity-specific value. Under the historical cost model assets are initially reported at the cost incurred on their acquisition....

Market value

7.25 At acquisition market value and historical cost will be the same, if transaction costs are ignored and the transaction is an exchange transaction....

Replacement cost

7.37 Replacement cost is:

The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.

7.38 Replacement cost differs from market value because:

- In a public sector context it is explicitly an entry value that reflects the cost of replacing the service potential of an asset;
- It includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and
- It is entity specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market. For example, the replacement cost of a vehicle is less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually.

7.39 Because entities usually acquire their assets by the most economic means available, replacement cost reflects the procurement or construction process that an entity generally follows. Replacement cost reflects the replacement of service potential in the normal course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event, such as a fire.

Net Selling Price

Staff comment: Given the definition and description net selling price is likely to be an infrequent measurement basis for first time recognition of an asset.

7.49 Net selling price is:

The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.

7.50 Net selling price differs from market value in that it does not require an open, active and orderly market or the estimation of a price in such a market and that it includes the entity's costs of sale. Net selling price therefore reflects constraints on sale. It is entity-specific.

Value in Use

Staff comment: Arguably the cost to purchase the assets, including transaction costs, equals the value in use at acquisition date, since the entity willingness to incur those costs to acquire the asset indicates that it expects to receive that value in service potential and economic benefits and ultimate disposal of the asset. However, Table 1 in Chapter 7 states that this is an exit value, which implies that transaction costs should not be included in the value.

7.58 Value in use is:

The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

Suitability of Value in Use

7.59 Value in use is an entity-specific value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. As noted in paragraph 7.42 above, the value that will be derived from an asset is often greater than its replacement cost—it is also usually greater than its historical cost. Where this is the case, reporting an asset at its value in use is of limited usefulness, as by definition, the entity is able to secure equivalent service potential at replacement cost. [etc.]

Liabilities

Historical Cost

7.70 Historical cost for a liability is:

The consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

7.71 Under the historical cost model initial measures may be adjusted to reflect factors such as the accrual of interest, the accretion of discount or amortization of a premium.

7.72 Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant—the amount of the future payment is discounted so that, at the time a liability is first recognized, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortized over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.

Excerpt from CP, Revenue and Expense; Measurement of Non-contractual payables

Approach 1 – Cost of Fulfillment Approach

7.41 This approach requires initial and subsequent measurement as the best estimate of the amount required to settle the liability, using discounted cash flows where appropriate. In accordance with the IPSASB Conceptual Framework, the rebuttable presumption is that this is on a cost of fulfillment basis, i.e., the cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. There may be very limited occasions where cost of release is the appropriate measure. Cost of release is the amount that a third party would charge to accept the immediate transfer of the liability from the reporting entity. Cost of release will only be relevant when it is both feasible and the most resource

6.3.4

efficient approach to settlement of the liability (i.e., when cost of release is lower than cost of fulfillment). The absence of an active market will limit these occasions.

- 7.42 The advantages of this approach is that it is in accordance with the IPSASB Conceptual Framework, relatively straightforward to apply and produces understandable information. Those who consider that the similarities between non-contractual payables and contractual payables can be exaggerated favor it. Those who consider that non-contractual payables and contractual payables are similar question why non-contractual payables are not accounted for in the same way as the financial instruments they resemble.

Exposure Draft **XX**
January 2019
Comments due: May 15, 2019

Agenda
Paper
6.3.5

IPSAS®

*Proposed International Public Sector Accounting
Standard®*

Measurement

IPSASB

International Public
Sector Accounting
Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, *Public Sector Measurement*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by May 15, 2019.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft is to propose requirements for measurement of assets and liabilities.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:

Do you agree with the [\[include question here\]](#)?

If not, what changes would you make?

Specific Matter for Comment 2:

Do you agree with the [\[include question here\]](#) included in this Exposure Draft?

If not, what changes would you make?

Specific Matter for Comment 3:

Do you agree with the [\[include question here\]](#)?

If not, what changes would you make?

EXPOSURE DRAFT XX, PUBLIC SECTOR MEASUREMENT

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Objective

1. The objective of this [draft] Standard is to establish principles for the measurement of assets and liabilities and identify measurement-related disclosures for financial reporting purposes.

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in measuring assets and liabilities.

Definitions

3. **The following terms are used in this [draft] Standard with the meanings specified:**

Assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Cost incurred on their acquisition is the consideration given to acquire or develop assets, which is the cash or cash equivalents or the value of the other consideration given, at the time of their acquisition or development.

Cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor.

Deemed cost is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.

Economic benefits are cash inflows or a reduction in cash outflows.

Cash inflows (or reduced cash outflows) may be derived from, for example, an asset's use in the production and sale of services; or the direct exchange of an asset for cash or other resources.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13, *Fair Value Measurement*.)

Wherever the term fair value occurs in this Standard the requirements and guidance in IFRS 13, *Fair Value Measurement*, shall be applied to measure fair value.

Historical cost for an asset is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

Historical cost for a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

Net selling price is the amount that the entity can obtain from sale of the asset, after deducting the costs of sale.

The **objective of measurement** is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

Replacement cost is the optimized depreciated replacement cost of an asset.

Replacement cost is also the most economic cost required for the entity to replace the service potential of an asset. Depreciated replacement cost is a measurement basis in its own right and is likely to be an appropriate current value measurement basis for specialized operational assets.

Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

Public sector assets that embody service potential may include recreational, heritage, community, defense and other assets which are held by governments and other public sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.

Transaction costs are the costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:

- (a) They result directly from and are essential to that transaction.
- (b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.

Value in use is the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

Value in use is an appropriate measurement basis for assets where it is less than the replacement cost of the resource and greater than the net selling price. The operationalization of value in use for non-cash-generating assets involves the use of replacement cost as a surrogate.

Measurement on Initial Recognition

How to determine historical cost

4. **Assets shall be measured on initial recognition at the cost incurred on their acquisition²³, except where:**
 - a. **Deemed cost shall be used, as set out in paragraph 5 below, because:**

²³ Defined as follows: Cost incurred on their acquisition is the consideration given to acquire or develop assets, which is the cash or cash equivalents or the value of the other consideration given, at the time of their acquisition or development.

- i. **Information on the assets' cost of acquisition is not available; or**
 - ii. **The assets are acquired at below market terms or in exchange for other non-financial assets.**
 - b. **Another IPSAS requires that they be measured at fair value²⁴.**
5. **The deemed cost shall be the asset's replacement cost²⁵ except where another IPSAS requires that deemed cost be fair value²⁶.**
- Paragraphs AGXX–AGXX provide additional guidance on measurement of an asset's replacement cost on initial recognition²⁷.
6. **Liabilities shall be measured on initial recognition at the consideration received to assume the obligations²⁸ at the time the liabilities are incurred, except where another IPSAS requires measurement at:**
- c. **Cost of fulfillment²⁹; or**
 - d. **Fair value.**

Treatment of transaction costs

7. **Transaction costs shall be included³⁰ in the initial measurement of an asset except where assets are measured initially at fair value.**
8. **The treatment of transaction costs for assets measured at fair value shall conform to the requirements for fair value measurement in IFRS 13, *Fair Value Measurement*³¹.**

Treatment of borrowing costs

9. **Borrowing costs shall be recognized as an expense in the period in which they are incurred³².**

²⁴ The definitions include a definition for fair value, which is linked to IFRS 13's detailed requirements for fair value measurement. The approach used is the same as that for IAS 16, *Property, Plant and Equipment*, where the Standard directs the reader to IFRS 13, *Fair Value Measurement*.

²⁵ Defined as follows: Replacement cost is the optimized depreciated replacement cost of an asset.

²⁶ Defined (as per IFRS 13, *Fair Value Measurement*) as follows: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

²⁷ The road map for this project has Application Guidance developed after the measurement principles have been approved.

²⁸ Defined as follows: Consideration received to assume the obligations is the cash or cash equivalents, or the value of the other consideration received at the time the liabilities are incurred.

²⁹ Cost of fulfillment is defined (as per the Conceptual Framework) to be "the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner."

³⁰ IPSAS reviewed and found to support use of the word "include". IPSAS 16 uses "include" paragraph 26. "Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement)."

³¹ Paragraphs XX–XX will set out IFRS 13's requirements for fair value measurement.

³² This paragraph reflects the Preliminary View (PV) proposed in CP, Chapter 3. The PV is for discussion at this meeting.

Subsequent Measurement

Historical cost

10. [Include main requirements here.]
11. [Include further information on main requirements here.]

Revaluation model

Entry and exit values

12. **[Include main requirements here.]**
13. [Include further information on main requirements here.]

Approach to valuation of assets

14. **[Include main requirements here.]**
15. [Include further information on main requirements here.]

Fair value (IFRS 13)

16. **[Include main requirements here.]**
17. [Include further information on main requirements here.]

Market value

18. **[Include main requirements here.]**
19. [Include further information on main requirements here.]

Replacement cost

20. **[Include main requirements here.]**
21. [Include further information on main requirements here.]

Value in use

22. **[Include main requirements here.]**
23. [Include further information on main requirements here.]

Use of professional valuers

24. **[Include main requirements here.]**
25. [Include further information on main requirements here.]

Indexation

26. **[Include main requirements here.]**
27. [Include further information on main requirements here.]

Depreciated historical cost as a proxy for value in use

- 28. **[Include main requirements here.]**
- 29. [Include further information on main requirements here.]

Treatment of transaction costs

- 30. **[Include main requirements here.]**
- 31. [Include further information on main requirements here.]

Treatment of borrowing costs

- 32. **[Include main requirements here.]**
- 33. [Include further information on main requirements here.]

Approach to valuation of liabilities

- 34. **[Include main requirements here.]**
- 35. [Include further information on main requirements here.]

Cost of fulfilment

- 36. **[Include main requirements here.]**
- 37. [Include further information on main requirements here.]

Market value

- 38. **[Include main requirements here.]**
- 39. [Include further information on main requirements here.]

Assumption price

- 40. **[Include main requirements here.]**
- 41. [Include further information on main requirements here.]

[Discount rate to use for public sector measurement]

- 42. **[Include main requirements here.]**
- 43. [Include further information on main requirements here.]

[Discounting using negative interest rates]

- 44. **[Include main requirements here.]**
- 45. [Include further information on main requirements here.]

Depreciation and amortization of assets

- 46. **[Include main requirements here.]**
- 47. [Include further information on main requirements here.]

Impairments

- 48. **[Include main requirements here.]**
- 49. [Include further information on main requirements here.]

Measurement on derecognition

- 50. **[Include main requirements here.]**
- 51. [Include further information on main requirements here.]

Assets

- 52. **[Include main requirements here.]**
- 53. [Include further information on main requirements here.]

Fair value (IFRS 13)

- 54. **[Include main requirements here.]**
- 55. [Include further information on main requirements here.]

Market value in an active market

- 56. **[Include main requirements here.]**
- 57. [Include further information on main requirements here.]

Proxy for market value in an inactive market

- 58. **[Include main requirements here.]**
- 59. [Include further information on main requirements here.]

Net selling price

- 60. **[Include main requirements here.]**
- 61. [Include further information on main requirements here.]

Treatment of transaction costs

- 62. **[Include main requirements here.]**
- 63. [Include further information on main requirements here.]

Treatment of borrowing costs

- 64. **[Include main requirements here.]**
- 65. [Include further information on main requirements here.]

Liabilities

- 66. **[Include main requirements here.]**
- 67. [Include further information on main requirements here.]

Cost of release

- 68. **[Include main requirements here.]**
- 69. [Include further information on main requirements here.]

Disclosures in respect of measurement

- 70. **[Include main requirements here.]**
- 71. [Include further information on main requirements here.]

Effective Date

- 72. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after MMMM DD, YY. Earlier adoption is encouraged. If an entity applies this [draft] Standard for a period beginning before MMMM DD, YY, it shall disclose that fact.**
- 73. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED XX)

Scope (see paragraphs Error! Reference source not found.–Error! Reference source not found.)

This [draft] Standard is applied in [guidance on application].

Similarly, this [draft] Standard does not apply to [guidance on application].

This [draft] Standard does not apply to [guidance on application].

Definitions (see paragraph 3)

Guidance on the Definition of [term]

[guidance on term]

Guidance on the Definition of [term]

[guidance on term]

Subheading (see paragraphs Error! Reference source not found.–Error! Reference source not found.)

[Include guidance here.]

Amendments to Other IPSAS

Amendments to [name of standard

Paragraphs [list numbers] are amended, paragraphs [list numbers] are added and paragraphs [list numbers] are deleted. New text is underlined and deleted text is struck through.

Heading

1. **Text**

- (a) ~~Those~~ within the scope of;

Comparison of measurement bases with GFS and with IVSC standards

Comparison with GFS

Text here to provide comparison.

Comparison with GFS

Text here to provide comparison.

IFRS 13 hierarchy

Heading 1

Relevant text.

Heading 2

Relevant text.

Etc.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED XX)

Objective (paragraphs X–X)

The IPSASB decided that Consultation Paper (CP), *Measurement*, would explain the basis for IPSASB decisions on issues raised during the development of the ED. Therefore, text in the Basis for Conclusions will be based on the CP's discussion of issues.

Scope and Definitions (paragraphs X–X)

Text in the Basis for Conclusions will be based on the CP's discussion of issues.

Measurement on initial recognition

Text in the Basis for Conclusions will be based on the CP's discussion of issues.

Subsequent measurement (paragraphs X–X)

Text in the Basis for Conclusions will be based on the CP's discussion of issues.

Measurement on derecognition (paragraphs X–X)

Text in the Basis for Conclusions will be based on the CP's discussion of issues.

Disclosures in respect of measurement (paragraphs X–X)

Text in the Basis for Conclusions will be based on the CP's discussion of issues.

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