



# Public Sector Measurement—Education Session

Impact of the Conceptual Framework on  
IPSASs – Agenda Item 6.2.5

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IPSASB Meeting

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# Aim of session

## Identify issues for development of ED sections on subsequent measurement

1. *Staff presentation*: Information on measurement in IPSASs, with examples of IPSASs reviewed using Review Approach
2. *IPSASB discussion* :
  - Conceptual Framework impact on IPSAS Measurement
  - Principles for ED sections on subsequent measurement

# Overview

1. Overview of IPSASs with measurement requirements
2. Review approach:
  - a) Conceptual Framework consistency
  - b) Entry/ exit value
3. Examples: Asset IPSASs (and three others)
  - a) All five IPSASs: Overview and common features
  - b) Each IPSAS considered individually

# 1. Overview of IPSASs and Measurement

40 IPSAS

5 Replaced (or soon to be replaced)

**35** IPSASs apply going forward (+ Social Benefits)

13 Without asset / liability measurement requirements

22 IPSASs with measurement requirements

6 Impacted by active projects

**16** IPSASs for review

# 1. Overview of IPSASs and Measurement: Active Projects

- Social Benefits (ED)
- Leases (ED)
- Revenue (CP)
- Expenses (CP)
- Financial Instruments (ED) & Public Sector Financial Instruments (CP)
- Heritage and Infrastructure: IPSAS 17, *PP&E*

# 1. Overview of IPSASs and Measurement

## 16 IPSASs for review

Also monitor active projects & link to IPSAS, *Measurement:*

7 IPSASs (social benefits, leases, revenue, F/Instruments)

13 Revise measurement references in other IPSASs

36 IPSASs to review and revise

## 2. Review Approach

Review approach has three components:

1. Rebuttable presumption that IPSAS measurement needs to change, to achieve consistency with Conceptual Framework (CF)
2. References to fair value:
  - If entry value then IFRS 13 fair value is not appropriate
  - If exit value then apply IFRS 13 fair value definition
3. Consider whether values are entity-specific or non-entity specific

## 2. (a) Review Approach—Conceptual Framework (CF) Consistency

- Objective of measurement: *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*
- Qualitative characteristics: *Relevance, representational faithfulness, understandability, timeliness, comparability & verifiability*
- Constraints: *Materiality, cost-benefit & balance between the qualitative characteristics*

## 2. (a) Review Approach—CF Consistency: Available Measurement Bases

- Assets
  - Historical cost
  - Market value
  - Replacement cost
  - Net selling price
  - Value in use
- Liabilities
  - Historical cost
  - Market value
  - Cost of fulfillment
  - Cost of release
  - Assumption price

## 2. (a) CF Consistency : Fair value as a measurement basis

- CF's "market value" is current IPSAS "fair value":
  - Amount for which an asset could be exchanged (or liability settled between knowledgeable, willing parties in arm's length transaction)
- IPSASB rejected IASB's fair value (IFRS 13, *Fair Value Measurement*) because:
  - Limited relevance in public sector
  - Treats measurement bases as "measurement techniques"

## 2. (a) Fair value as measurement basis: CF *Basis for Conclusions*

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

## 2(a) Review Approach: “Fair Value” Equivalents

IPSASB’s September 2017 decision: *Fair value still relevant in some cases*

*Review approach:* If IPSAS refers to “fair value” and this means:

- An entry value, consider:
  - Market value, if non-specialized asset
  - Replacement cost, if specialized
- An exit value, apply IFRS 13 fair value definition

## 2.(b) Review Approach—Entry or exit value, entity specific values

- *Entry values* reflect
  - **Cost of purchase** for assets
  - Liabilities: Relates to transaction under which an obligation is **received** or the amount that an entity **would accept to assume** a liability. [CF 7.8-7.9]
- *Exit values* reflect:
  - Economic benefits from **sale** of asset and **amount derived from use**
  - Liabilities: amount to **fulfil obligation** or amount to **release** entity from an **obligation**
- *Entity specific values*: Include entity specific costs (e.g. adaptation of asset or transaction costs)

## 2.(b) Review Approach—Entry or exit value

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

## 2.(b) Review Approach—Entry or exit value

| Measurement Basis (Liabilities)                 | Entry or Exit | Observable?    | Entity Specific? |
|---|---------------|----------------|------------------|
| Historical cost                                 | Entry         | Generally, yes | Yes              |
| Market value in open, active and orderly market | Entry or exit | Yes            | No               |
| Market value in inactive market                 | Exit          | Depends        | Depends          |
| Cost of fulfillment                             | Exit          | No             | Yes              |
| Cost of release                                 | Exit          | Yes            | Yes              |
| Assumption price                                | Entry         | Yes            | Yes              |

### 3. IPSASs Examples for IPSASB Discussion

| <b>(a) Assets (<i>Main focus</i>)</b>   | <b>(b) Liabilities</b>                                  | <b>(c) Assets and Liabilities</b> |
|---|---|-----------------------------------|
| 12, Inventories<br>16, Investment Properties<br>17, Property, Plant & Equipment<br>27, Agriculture<br>31, Intangible Assets | 19, Provisions & Contingencies<br>39, Employee Benefits | 40, Public Sector Combinations    |

## 3(a) Overview of Asset IPSASs: Initial Measurement Currently

| Assets                           | Initial measurement             | Transaction Costs    |
|----------------------------------|---------------------------------|----------------------|
| 12, <i>Inventories</i>           | Cost                            | Capitalize           |
| 16, <i>Investment Properties</i> | Cost                            | Capitalize           |
| 17, <i>PP&amp;E</i>              | Cost                            | Capitalize           |
| 27, <i>Agriculture</i>           | Fair value less costs to market | Less costs to market |
| 31, <i>Intangible Assets</i>     | Cost                            | Capitalize           |

## 3(a) Overview of Asset IPSASs: Subsequent Measurement Currently

|                                    |   |
|------------------------------------|---|
| 12, <i>Inventories</i> :           | Lower of cost and net realizable value      |
| 17, <i>PP&amp;E</i> :              | Historical cost or revaluation (fair value) |
| 16, <i>Investment Properties</i> : | Historical cost or revaluation (fair value) |
| 27, <i>Agriculture</i> :           | Fair value less costs to market             |
| 31, <i>Intangible Assets</i> :     | Historical cost or revaluation (fair value) |

All five IPSASs have public sector specific (PSS) changes

## 3(a) Overview of Asset IPSASs: Assets held for service potential or for economic benefits

Held for **service potential** and/or economic benefits:

- Inventories (e.g. **medicine, food, booklets**)
- PP&E (e.g. **government buildings, infrastructure**)
- Intangibles (e.g. **information technology for government services**)

Only held for economic benefits?

- Investment Properties: **“By definition”**
- Biological assets or agricultural produce? Excludes biological assets held for supply of services. ***But* applies when held for distribution at no charge.**

## 3(a) Overview of Asset IPSASs: Public sector specific (PSS) changes

Asset standards have PSS changes to address:

1. Initial measurement—situations where:
  - a) Assets acquired through non-exchange transactions (Use of deemed cost)
  - b) Cost information is missing (e.g. IPSAS 33, *First Time Adoption*)
2. Subsequent measurement of non-cash generating (N-CG) assets
  - a) Revaluations
  - b) Impairment (IPSAS 21, *Impairment of N-CG Assets*)
3. PSS categories: Excluded or special treatment (e.g. IPSAS 19 excludes social benefits, IPSAS 17 has options for heritage assets)

## 3(a) Overview: Conceptual Framework Measurement Bases that could apply

12, *Inventories*: Historical cost, market value (entry), replacement cost, net selling price

17, *PP&E*: Historical cost, market value, replacement cost

16, *Investment Properties*: Historical cost, market value (entry)

27, *Agriculture*: Net selling price, market value (exit or entry)

31, *Intangible Assets*: Historical cost, market value (entry), replacement cost

## 3(b) IPSAS 12, *Inventories*: Current situation

- General rule:
  - Initial measurement at **cost**
  - Subsequent measurement at **lower of cost and net realizable value**
- Where inventories:
  - Acquired through non-exchange transaction: **Initial measurement at fair value** (*Staff view: Entry value. Replace with market value?*)
  - Distributed at no or nominal cost: **Subsequent measurement at lower of cost and current replacement cost**

## 3(b) IPSAS 12, *Inventories*: Current situation

- *Cost*: Includes transaction costs (*Entry value*)
- *Net realizable value*: Estimated selling price (ordinary course of operations) less estimated costs of completion and estimated costs necessary to make the sale, exchange, or distribution
  - An entity-specific value (*Staff view: Similar to net selling price*)
- *Current replacement cost in IPSAS 12*:
  - Cost that entity would incur to acquire asset on reporting date
  - Different from Conceptual Framework's definition of RC

## 3(b) IPSAS 12, *Inventories*: IPSASB views?

- Points to consider:
  - Applicable measurement bases
  - Measurement basis to replace “fair value”
  - Meaning of “replacement cost” for inventories
  - Significance of “service potential inventory” versus “economic benefits inventory”
  - Relevance of specialized versus non-specialized

## 3(b) IPSAS 16, *Investment Properties*: Current situation

- General:
  - Initial measurement at cost. Includes transaction costs (entry value)
  - Subsequent measurement:
    - Fair value model *Staff view exit value. Replace with IFRS 13 fair value?*
    - Cost model (apply cost model in IPSAS 17, PP&E)
- Investment properties acquired in non-exchange transaction:
  - **Initial measurement at fair value** *Staff view entry value. Replace with market value?)*

## 3(b) IPSAS 16, *Investment Properties*: IPSASB views?

- Points to consider:
  - Applicable measurement bases
  - Measurement bases to replace “fair value”
    - Initial measurement (deemed cost)
    - Subsequent measurement, when using the fair value model
  - Investment properties as always about economic benefits
  - Relevance of specialized versus non-specialized

## 3(b) IPSAS 17, *Property, Plant & Equipment (PP&E)*: Current situation

- General:
  - Initial measurement at cost. Includes transaction costs (*entry value*)
  - Subsequent measurement:
    - Cost model (*Historical cost*)
    - Revaluation model: Fair value less depreciation & impairment (*entry*)
- PP&E acquired in non-exchange transaction:
  - **Initial measurement at fair value** *Staff view entry value. Replace with market value or replacement cost?)*

## 3(b) IPSAS 16, *Property, Plant & Equipment* : IPSASB views?

- Points to consider:
  - Applicable measurement bases
  - Measurement bases to replace “fair value”:
    - Initial measurement (deemed cost)
    - Subsequent measurement, when using revaluation model
  - IPSAS 17 discusses how to determine fair value.
    - Market value, replacement cost (DRC), reproduction cost, service units
    - Consider availability of market values, whether asset is specialized

## 3(b) IPSAS 27, *Agriculture*: Current situation

- Biological assets and agricultural produce are measured at fair value less costs to sell:
  - Initial measurement
  - Subsequent measurement:
    - When acquired in non-exchange transaction
- Fair value is based on asset's present location and condition:
  - For example, fair value is price for cattle in the relevant market, less the transport and other costs of getting cattle to that market
- *Staff view: Exit value*

## 3(b) IPSAS 27, *Agriculture*: IPSASB views?

- Points to consider:
  - Meaning of “fair value less costs to sell”
  - Measurement bases to replace “fair value less costs to sell”:
    - Net selling price (Conceptual Framework)
    - Fair value (IFRS 13)

## 3(b) IPSAS 31, *Intangibles*: Current situation

- General:
  - Initial measurement at cost. Includes transaction costs (*entry value*)
  - Subsequent measurement:
    - Cost model (*Historical cost*)
    - Revaluation model: Fair value less amortization (*entry*) Fair value determined by reference to an active market (*market value?*)
- Intangibles acquired in non-exchange transaction: **Initial measurement at fair value** *Staff view entry value. Replace with market value or replacement cost?*

## 3(b) IPSAS 31, *Intangibles*: IPSASB views?

- Points to consider:
  - Applicable measurement bases
  - Measurement bases to replace “fair value”:
    - Initial measurement (deemed cost)
    - Subsequent measurement, when using revaluation model

## 3(b) IPSAS 19, *Provisions and Contingencies*: Current situation / IPSASB views?

- Measurement of provisions: Best estimate of the expenditure required to settle the present obligation at the reporting date.
- Compare to Conceptual Framework's "cost of fulfillment":  
*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*

## 3(b) IPSAS 39, *Employee Benefits*: Current situation / IPSASB views?

- *Liabilities*: Present value of obligations (e.g. defined benefit obligation “present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods)
- *Assets*: Fair value of plan assets
- Compare to Conceptual Framework’s cost of fulfillment:  
*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.*

## 3(b) IPSAS 40, *Combinations*: Current situation / IPSASB views?

- Amalgamation: Measure at carrying amounts
- Acquisition: Measure assets and liabilities at fair value
- IPSAS 40 also requires or allows for:
  - Measurement at amortized cost in accordance with IPSAS 29
  - Other measurement bases if required by IPSASs
  - Other national or international standards (e.g. tax due)
- IPSASB views? *(Note issues: (1) IPSAS 40 approved after Conceptual Framework (2) Linked to work-in-progress IPSASs, e.g. Leases, FIs, etc.)*

## Next Steps

- Address IPSASB's March revisions to:
  - Exposure Draft
  - Consultation Paper
- Develop Chapter 3's discussion of transaction costs, consistent with IPSASB's decisions in March
- Develop further ED sections and related Issues Paper