

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Virtual Meeting

**Meeting Date:** October 27, 2020

## Agenda Item

# 1

For:

☐ Approval

☒ Discussion

☐ Information

## ED 76 AND ED 77, CONCEPTUAL FRAMEWORK–LIMITED SCOPE UPDATE AND MEASUREMENT

<b>Project summary</b>	<p>The project objective is to:</p> <ul style="list-style-type: none"> <li>Update the Conceptual Framework for a limited number of issues based on the criteria of urgency, consequences, feasibility and prevalence, with an emphasis on the first three of these criteria; and</li> <li>Revise IPSAS requirements for measurement, provide guidance on measurement and address the treatment of transaction costs and borrowing costs.</li> </ul>	
<b>Board sponsor</b>	<ul style="list-style-type: none"> <li>David Watkins, IPSASB Technical Advisor</li> </ul>	
<b>Measurement Task Force members</b>	<ul style="list-style-type: none"> <li>David Watkins, IPSASB Technical Advisor (Task Force Chair)</li> <li>Takeo Fukiya, IPSASB Technical Advisor</li> <li>Francesco Capalbo, Second University of Naples</li> <li>Steve Choi, RICS (Alternate while David Tretton is absent)</li> </ul>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">ED 76 and ED 77, Conceptual Framework-Limited Scope Update and Measurement: Project Roadmap</a>	<a href="#">1.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">1.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">1.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Coordinators Report of Cross-Cutting Issues</a>	<a href="#">1.2.1</a>
	<a href="#">Current Service Value</a>	<a href="#">1.2.2</a>
	<a href="#">What is Value in Use?</a>	<a href="#">1.2.3</a>
	<a href="#">Depreciation and Impairment</a>	<a href="#">1.2.4</a>
	<a href="#">Initial Measurement</a>	<a href="#">1.2.5</a>
<b>Other supporting items</b>	<a href="#">Overview of Measurement Bases</a>	<a href="#">1.3.1</a>
	<a href="#">ED 77, Measurement</a>	<a href="#">1.3.2</a>

## ED 76 AND ED 77, CONCEPTUAL FRAMEWORK–LIMITED SCOPE UPDATE AND MEASUREMENT: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
<b>Conceptual Framework – Limited Scope Update</b>	
March 2020	1. Approval of Limited Scope Update of Conceptual Framework Project Brief
June 2020	1. Discussion of Issues
September 2020	1. Discussion of Issues 2. Review [draft] Exposure Draft
October 2020	1. Discussion of Issues
December 2020	1. Discuss proposed consequential amendments 2. Approve Exposure Draft
<b>Measurement</b>	
March 2019	2. Approve Consultation Paper and Illustrative Exposure Draft
June 2019	1. Document out for comment
September 2019	1. Document out for comment
December 2019	2. Preliminary Review of Responses to Consultation Paper
March 2020	1. Review of Responses to Consultation Paper 2. Discussion of Issues
June 2020	1. Discussion of Issues
September 2020	1. Discussion of Issues 2. Review [draft] Exposure Draft
October 2020	1. Discussion of Issues 2. Review [draft] Exposure Draft
December 2020	1. Discuss proposed consequential amendments 2. Approve Exposure Draft

## INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2020	<b>Measurement Hierarchy Application</b> <ol style="list-style-type: none"> <li>1. Include draft initial measurement guidance in core text of ED, <i>Measurement</i> for Board review in October.</li> <li>2. Revise text on application of measurement hierarchy on subsequent measurement for Board review in October.</li> </ol>	<ol style="list-style-type: none"> <li>1. See <a href="#">ED, Measurement</a> paragraphs 11-18.</li> <li>2. Terminology has been updated. See <a href="#">Agenda Item 1.2.5</a>.</li> </ol>
September 2020	<b>Measurement Basis – Fulfillment Value vs. Cost of Fulfillment</b> <ol style="list-style-type: none"> <li>3. Update terminology throughout the measurement suite of projects to reflect IPSASB decision to retain the term cost of fulfillment.</li> <li>4. Develop BCs to explain cost of fulfillment: <ul style="list-style-type: none"> <li>o Principles have been retained from the existing IPSASB literature; and</li> <li>o Does not include a risk premium (unlike the IASB definition of fulfillment value, which does include a risk premium).</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>3. See <a href="#">ED, Measurement</a>.</li> <li>4. In progress. BCs to be updated for December 2020.</li> </ol>
September 2020	<b>Current Value Model Measurement Techniques</b> <ol style="list-style-type: none"> <li>5. Clearly communicate which measurement techniques are linked to which measurement bases. Consider illustrating in tabular form.</li> <li>6. Consider terminology throughout the measurement guidance: <ul style="list-style-type: none"> <li>o Consider whether “cost approach” best describes the measurement technique and evaluate alternative options.</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>5. See slides developed in <a href="#">Agenda Item 1.3.1</a>.</li> <li>6. In progress. Recommendations on terminology will be developed for December 2020.</li> </ol>
September 2020	<b>Historical Cost Model Measurement Techniques</b> <ol style="list-style-type: none"> <li>7. Carry out further analysis on techniques for the historical cost measurement basis.</li> </ol>	<ol style="list-style-type: none"> <li>7. In progress. Analysis to be completed for December 2020.</li> </ol>

## Agenda Item 1.1.2

September 2020	<b>Market Approach Use</b> 8. Review the applicability of the market approach to cost of fulfilment for liabilities.	8. In progress. Analysis to be completed for December 2020.
September 2020	<b>What is Income Approach?</b> 9. Consider terminology throughout the measurement guidance: The term “income approach” can be misleading. Inflows and outflows are included. Evaluate alternative terminology options.	9. In progress. To be addressed for December 2020 meeting.
September 2020	<b>Income Approach Use</b> 10. Carry out further analysis to determine whether the income approach is applicable when estimating the current cost measurement basis. <ul style="list-style-type: none"> <li>Provide examples to demonstrate applications of income approach to current cost measurement basis.</li> </ul>	10. Yes. In cases where an asset is specialized, as a market is unlikely to exist for such assets. See <a href="#">Agenda Item 1.2.2</a> for details and clarification that income approach is least likely technique under CSV.
September 2020	<b>Service Capacity Compared with Service Potential</b> 11. Consider terminology throughout the measurement guidance: <ul style="list-style-type: none"> <li>The distinction between service potential and service capacity is unclear. Consider presenting the principle using different terminology to avoid reference to service capacity while maintaining references to service potential.</li> </ul>	11. In progress. To be addressed for December 2020 meeting.
September 2020	<b>Cost Approach Use</b> 12. Consider terminology throughout the measurement guidance: <ul style="list-style-type: none"> <li>Is the IFRS 13 wording appropriate as proposed; and</li> <li>Modern equivalent asset, comparable utility, etc.</li> </ul>	12. In progress. To be addressed for December 2020 meeting.
September 2020	<b>Presenting Measurement Techniques in ED, Measurement</b> 13. Develop BCs explaining the structure of ED, <i>Measurement</i> .	13. In progress. BCs to be updated for December 2020.
September 2020	<b>Guidance on Historical Cost Measurement Basis</b> 14. Clarify initial measurement in the core text and carry out further analysis as necessary to explain the principles.	14. Clarification of initial measurement has been made in the core text. See <a href="#">Agenda Item 1.2.5</a> .

## Agenda Item 1.1.2

September 2020	<b>What is Current Cost?</b> 15. Refine the principles of current cost and explore other terminology to better explain the basis. 16. Clarify the differences between current cost, value in use and fair value, and consider whether there can be measurement techniques hierarchies as for Fair Value. 17. Develop examples illustrating how current cost is applied.	15. See <a href="#">Agenda Item 1.2.2</a> . 16. See <a href="#">Agenda Item 1.2.2</a> . 17. See <a href="#">Agenda Item 1.2.2</a> .
September 2020	<b>What is Value in Use?</b> 18. Carry out further analysis whether value in use should be identified as a measurement basis. Consider this in conjunction with the current cost analysis and work preform on other measurement techniques.	18. See <a href="#">Agenda Item 1.2.3</a> .
September 2020	<b>Cost of Release</b> 19. Draft BCs and an appropriate Specific Matter for Comment (SMC).	19. In progress. BCs to be updated for December 2020.
September 2020	<b>Assumption Price</b> 20. Draft BCs and an appropriate SMC.	20. In progress. BCs to be updated for December 2020.
September 2020	<b>Net Selling Price</b> 21. Draft BCs and an appropriate SMC. 22. Consider the best approach to communicating how the likely rise in importance of distress sales following COVID-19 should be addressed in Board literature.	21. In progress. BCs to be updated for December 2020. 22. In progress. To be addressed for December 2020 meeting.
September 2020	<b>Measurement Objective</b> 23. Develop BCs reflecting Board decision.	23. In progress. BCs to be updated for December 2020.
September 2020	<b>Measurement Basis for Hybrid Use Assets</b> 24. Reword the Implementation Guidance to emphasize the need for professional judgment.	24. See <a href="#">ED, Measurement</a> , IG.B.1
September 2020	<b>Measurement Basis for Assets in the Same IPSAS Held for Differing Capacities</b> 25. Develop BCs reflecting Board decision.	25. See <a href="#">ED, Measurement</a> , BC20.
September 2020	<b>Structure of ED 77, Measurement</b> 26. Consider the order of the appendices in the next iteration of ED, <i>Measurement</i> in the context of the arrangement of core material and usage of the measurement hierarchy.	26. Appendices have been re-ordered to prioritize application in the public sector. See <a href="#">ED, Measurement</a> .

September 2020	<p><b>Improvements to Replacement Cost Guidance (Theme F)</b></p> <p>27. Accept drafting changes actioning respondent comments on the Illustrative ED.</p> <p><b>Improvements to Historical Cost Guidance (Theme F)</b></p> <p>28. Accept drafting changes actioning respondent comments on the Illustrative ED.</p> <p><b>Improvements to Fair Value Guidance (Theme F)</b></p> <p>29. Accept drafting changes actioning respondent comments on the Illustrative ED.</p> <p><b>Improvements to Fulfillment Value Guidance (Theme F)</b></p> <p>30. Accept drafting changes actioning respondent comments on the Illustrative ED.</p>	<p>27. See <a href="#">ED, Measurement</a>.</p> <p>28. See <a href="#">ED, Measurement</a>.</p> <p>29. See <a href="#">ED, Measurement</a>.</p> <p>30. See <a href="#">ED, Measurement</a>.</p>
June 2020	<p><b>Coordination of Cross Cutting Issues</b></p> <p>1. Develop communications plan for inter-related projects for discussion at December meeting.</p>	<p>1. To be developed for December 2020 meeting.</p>
June 2020	<p><b>Conceptual Framework – Limited Scope Update</b></p> <p>1. Review terminology throughout “hierarchy” for consistency and understandability.</p>	<p>1. In progress. Staff expects concepts to be finalized after September 2020 meeting. Q4 focus will be elevating the quality of the EDs (including consistency of terminology)</p>

## DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
September 2020	<b>Measurement Hierarchy Application</b> 1. Subject to review of the text at the October check-in session, to make: <ul style="list-style-type: none"> <li>Guidance on measurement at initial recognition applicable to both the historical cost and current value models, and should be in the core text; and</li> <li>The measurement hierarchy applicable to subsequent measurement.</li> </ul>	1. See <a href="#">ED, Measurement</a> , BC40 – BC44.
September 2020	<b>Measurement Basis – Fulfillment Value vs. Cost of Fulfillment</b> 2. To retain: <ul style="list-style-type: none"> <li>The term cost of fulfillment; and</li> <li>The cost of fulfillment principles included in the existing IPSASB conceptual framework.</li> </ul>	2. In progress.
September 2020	<b>Current Value Model Measurement Techniques</b> 3. To set the measurement techniques as market approach, income approach (subject to further consideration of this terminology) and cost approach.	3. In progress.
September 2020	<b>What is Market Approach?</b> 4. The market approach: <ul style="list-style-type: none"> <li>Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities; and</li> <li>The generic guidance should be in the core text.</li> </ul>	4. See <a href="#">ED, Measurement</a> , BC38. No action necessary for guidance and definition – is already in core text.
September 2020	<b>Market Approach Use</b> 5. The IPSASB decided the market approach can be used to estimate the fair value and current cost measurement bases.	5. See <a href="#">ED, Measurement</a> , BC39.
September 2020	<b>What is Income Approach?</b> 6. The income approach: <ul style="list-style-type: none"> <li>Converts future amounts to a single current amount; and</li> <li>The generic guidance should be in the core text.</li> </ul>	6. See <a href="#">ED, Measurement</a> , BC38. No action necessary for guidance and definition – is already in core text.

## Agenda Item 1.1.3

September 2020	<b>Income Approach Use</b> 7. The income approach can be used to estimate the fair value, value in use, and cost of fulfillment measurement bases.	7. See <a href="#">ED, Measurement</a> , BC39.
September 2020	<b>What is Cost Approach?</b> 8. The cost approach: <ul style="list-style-type: none"> <li>○ Reflects the amount that would be required to replace the service provided by an asset; and</li> <li>○ The generic guidance should be in the core text.</li> </ul>	8. See <a href="#">ED, Measurement</a> , BC38. No action necessary for guidance and definition – is already in core text.
September 2020	<b>Replacement Cost Compared with Cost Approach</b> 9. Subject to clarification of the terms service capacity and service potential in Agenda Item 7.2.12, the replacement cost principles developed in CP, <i>Measurement</i> , are consistent with those of the cost approach measurement technique proposed in ED, <i>Measurement</i> .	9. In progress.
September 2020	<b>Service Capacity Compared with Service Potential</b> 10. Subject to better explanation / removal of the service capacity term: <ul style="list-style-type: none"> <li>○ From the perspective of a market participant, the volume of service an asset can produce, should be assumed; and</li> <li>○ From the perspective of the entity holding the asset, the volume of service an asset delivers in practice, should be assumed.</li> </ul>	10. In progress.
September 2020	<b>Cost Approach Use</b> 11. The cost approach can be used to estimate assets under fair value and current cost measurement bases.	11. See <a href="#">ED, Measurement</a> , BC39.
September 2020	<b>Presenting Measurement Techniques in ED, Measurement</b> 12. Generic principles should be included in the core text and application principles should be included in the appendices. 13. Generic material on measurement techniques should be included in the core text.	12. In progress. 13. In progress.
September 2020	<b>Cost of Release</b> 14. Not to retain cost of release as a measurement basis for liabilities.	14. In progress.



September 2020	<b>Assumption Price</b> 15. Not to retain assumption price as a measurement basis for liabilities.	15. In progress.
September 2020	<b>Net Selling Price</b> 16. Not to retain net selling price as a measurement basis for assets.	16. In progress.
September 2020	<b>Measurement Objective</b> 17. Not to change the wording of the measurement objective.	17. In progress.
September 2020	<b>Measurement Basis for Hybrid Use Assets</b> 18. Implementation Guidance should be added in ED, <i>Measurement</i> : <ul style="list-style-type: none"> <li>○ Referring to principles in existing IPSAS; and</li> <li>○ The need for an entity to apply professional judgment.</li> </ul>	18. See <a href="#">ED, Measurement</a> , BC19
September 2020	<b>Measurement Basis for Assets in the Same IPSAS Held for Differing Capacities</b> 19. No additional guidance is necessary on how determine measurement bases when assets held for operating capacity and assets held for financial capacity are within the scope of the same IPSAS.	19. See <a href="#">ED, Measurement</a> , BC20
September 2020	<b>Structure of ED 77, Measurement</b> 20. Generic principles should be included in the core text and application principles should be included in the appendices.	20. In progress.
September 2020	<b>Improvements to Replacement Cost Guidance (Theme F)</b> 21. The comments from respondents on the replacement cost text in the Illustrative ED have been addressed appropriately. <b>Improvements to Historical Cost Guidance (Theme F)</b> 22. The comments from respondents on the historical cost text in the Illustrative ED have been addressed appropriately. <b>Improvements to Fair Value Guidance (Theme F)</b> 23. The comments from respondents on the fair value text in the Illustrative ED have been addressed appropriately. <b>Improvements to Fulfillment Value Guidance (Theme F)</b> 24. The comments from respondents on the fulfillment value text in the Illustrative ED have been addressed appropriately.	21. In progress. 22. In progress. 23. In progress. 24. In progress.

## Agenda Item 1.1.3

Coordination of Cross Cutting Issue		
June 2020	1. No decisions	1. Not applicable
March 2020	2. Not applicable – This Agenda Item is new for June 2020. It summarizes the process followed by staff in managing the Measurement and CF-LSU projects holistically. Decisions are included in the specific Agenda Items related to each project.	2. Not applicable
Conceptual Framework – Limited Scope Update		
June 2020	1. The Measurement “hierarchy” in the ED should comprise Measurement Models, Measurement Bases and Measurement Techniques.	1. See <a href="#">ED, Conceptual Framework</a> paragraphs BC7.51 – BC7.54
June 2020	2. Market Value is not be a Measurement Basis, but is a Measurement Technique.	2. See <a href="#">ED, Conceptual Framework</a> paragraphs BC7.64
June 2020	3. The Measurement Bases are Historical Cost, Fair Value, Fulfillment Value (or Cost of Fulfillment), and Current Cost, and each Basis should be defined in the IPSASB Conceptual Framework.	3. See <a href="#">ED, Conceptual Framework</a> paragraphs BC7.59 – BC7.63
June 2020	4. Replacement Cost should be applied as a Measurement Technique rather than a Measurement Basis.	4. See <a href="#">ED, Conceptual Framework</a> paragraphs BC7.65 – BC7.66
June 2020	5. Equitable value and synergistic value will be excluded from IPSAS, Measurement and the Conceptual Framework.	5. See <a href="#">ED, Conceptual Framework</a> paragraphs BC7.89 – BC7.92
June 2020	6. The entry/exit distinction should be discussed at a high-level in the IPSASB Conceptual Framework.	6. See <a href="#">ED, Conceptual Framework</a> paragraphs BC7.55 – BC7.58
June 2020	7. Selection of measurement bases should be linked to the measurement objective (especially financial capacity / operational capacity) rather than to entry/exit values.	7. See <a href="#">ED, Conceptual Framework</a> paragraphs BC7.49 – BC7.50
March 2020	8. Approve the project brief and outline subject to drafting and editorial amendments including making the brief less measurement-centric and considering the change of terminology from cost of fulfilment to fulfillment value in Key Issue #2.	8. Draft paragraphs at June 2020 Agenda Item 6.3.2.

## Agenda Item 1.1.3

Measurement		
June 2020	<ol style="list-style-type: none"> <li>The location of measurement guidance should be as follows: <ul style="list-style-type: none"> <li><b>Conceptual Framework.</b> Provides guidance on measurement models and measurement bases.</li> <li><b>ED, Measurement.</b> Provides guidance on measurement bases and measurement techniques.</li> <li><b>IPSAS Suite of Standards.</b> Guidance is provided at the measurement basis level.</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>EDs on Conceptual Framework and Measurement have been developed based on IPSASBs structural decision. See <a href="#">ED, Conceptual Framework</a> and <a href="#">ED, Measurement</a>.</li> </ol>
June 2020	<ol style="list-style-type: none"> <li>Use of the term Fair Value is consistent with the IFRS 13-based definition to be included in Conceptual Framework and Measurement in IPSAS 16, 27, 34, 39, and 41. Use of the term Fair Value is not appropriate in IPSAS 32 and will need to be replaced in accordance with the consolidated guidance in ED Measurement. It remains appropriate in certain situations in IPSAS 33 and 36, where the need for consequential amendments will be decided on a case by case basis in accordance with ED Measurement.</li> </ol>	<ol style="list-style-type: none"> <li>See BC17-BC20 in <a href="#">Agenda Item 7.3.2</a>.</li> </ol>
March 2020	<ol style="list-style-type: none"> <li>No decisions made (detailed review of responses)</li> </ol>	<ol style="list-style-type: none"> <li>Not applicable</li> </ol>
December 2019	<ol style="list-style-type: none"> <li>No decisions made (preliminary review of responses)</li> </ol>	<ol style="list-style-type: none"> <li>Not applicable</li> </ol>
March 2019	<ol style="list-style-type: none"> <li>All decisions made up until March 2019 were reflected in the <a href="#">Consultation Paper on Measurement</a>.</li> </ol>	<ol style="list-style-type: none"> <li>All decisions made up until March 2019 were reflected in the <a href="#">Consultation Paper on Measurement</a>.</li> </ol>

## Coordinators Report of Cross-Cutting Issues

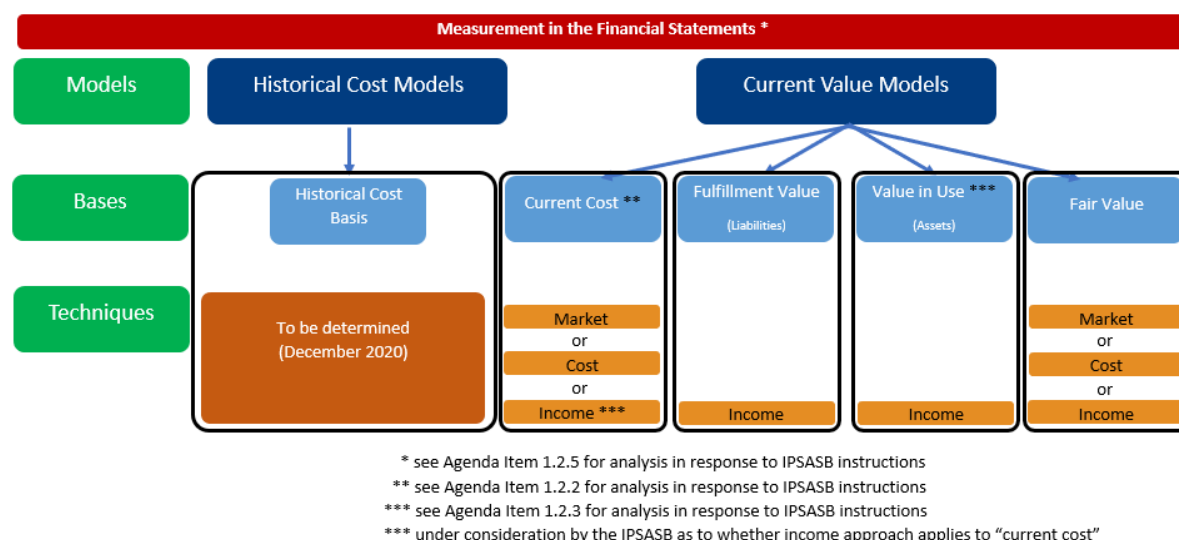
### Purpose

1. To provide an overview of the issues addressed following the September 2020 meeting by the Conceptual Framework – Limited-Scope Update (CF-LSU) and Measurement project teams.

### Background

2. In September, the IPSASB made several key decisions that helped frame the CF-LSU and measurement projects. The key decisions related to the measurement hierarchy presented in Figure 1 below.

**Figure 1 – Summary of Hierarchy after September 2020 IPSASB Meeting**



### Analysis

3. For October, staff focused on addressing the remaining substantive conceptual issues following the September meeting, as follows:
  - (a) Current value measure for public sector ([Agenda Item 1.2.2](#));
  - (b) How does value in use fit into the hierarchy ([Agenda Item 1.2.3](#));
  - (c) How does depreciation / impairment fit into the measurement literature ([Agenda Item 1.2.4](#)); and
  - (d) Clarifying initial measurement ([Agenda Item 1.2.5](#)).

Staff focused on these issues because they are substantive and need to be addressed to ensure continued development of ED, *Measurement* and ED, *Conceptual Framework – Limited-Scope Update*. Staff considers the remaining instructions in [Agenda Item 1.1.2](#), while voluminous, are straightforward in nature.

4. In developing these agenda items, staff was reminded that an overarching objective for the projects is to better improve consistency across IPSAS to enhance the comparability of financial statements. However, in achieving this objective, paragraph 4.5 of the CP notes outcomes of the measurement

project will be tested to ensure the economic substance of the transaction continues to be fairly presented. This is important because in reaching many of its recommendations, staff considered how to practically minimize the changes at the standards level, where the measurement requirements are clear and not causing problems. This approach allowed staff to focus on clarifying measurement concepts and addressing measurement problem areas in existing IPSAS.

### *Process*

5. In order to move the projects forward in a consistent and efficient manner, staff followed the same approach as in Q2 and Q3 2020. This included:
  - (a) Joint development of the overall project plan for the quarter, and through to ED approvals in December;
  - (b) Discussion of cross-cutting agenda items prior to the development of the agenda papers; and
  - (c) Review and comparison of all agenda papers to ensure consistency in recommendations.
6. The IPSASB continues to make significant progress on issues identified by respondents to the CP. Issues identified in March 2020 are as follows:
  - (a) **Borrowing Costs**
    - (i) **Addressed** – Exposure planned for October 22, 2020
  - (b) **Measurement Bases** – Alignment with conceptual framework
    - (i) **Addressed** - measurement hierarchy developed
  - (c) **Fair Value** (conceptual framework issues – replacement cost / FV vs Market Value / FV in conceptual framework)
    - (i) **Addressed** - measurement hierarchy developed
      - a. Replacement cost is a measurement technique
      - b. A public sector measurement basis is underdeveloped (See [Agenda Item 1.2.2](#))
      - c. FV has been added to the conceptual framework
  - (d) **Fair Value** (review application of fair value in IPSAS / highest and best use)
    - (i) **Addressed** – IPSASB reviewed application of FV in IPSAS in June/September and highest and best use has been excluded from the public sector measurement basis (See [Agenda Item 1.2.2](#))
  - (e) **Fulfillment Value**
    - (i) **Addressed** – Cost of Fulfillment is included as a measurement basis
  - (f) **Measurement Bases** (respondent comments)
    - (i) **Addressed** – IPSASB has reviewed and addressed all stakeholder comments (adding additional guidance on examples and restrictions is in progress for December 2020.
  - (g) **Flow Charts**
    - (i) **In progress** – to be completed as part of consequential amendments

**(h) Exposure Drafts**

- (i) **In progress** – the IPSASB has reviewed drafts of ED, Measurement and ED, Conceptual Framework – Limited-Scope Update

*Plan for Q4 2020*

- 7. In preparing for October 2020, staff prioritized developing recommendations for all substantive conceptual issues. By finalizing these issues, staff can focus the remainder of Q4 on finalizing the draft EDs for December approval.
- 8. At its December meeting, the IPSASB will be provided a third iteration of the EDs. Agenda papers that focus on the remaining instructions from September 2020 meeting, and will address key changes to the EDs following the October 27 meeting.

## Current Service Value

### Question

1. Does the IPSASB agree with the principles of current service value proposed?

### Recommendation

2. Having considered members comments from the September meeting, staff recommends:
  - (a) The term “current cost” be renamed “current service value” with principles refined for the public sector; and
  - (b) Current service value measures the cost to replace the service potential of a modern equivalent asset at the measurement date.

### Background

3. Several responses to the CP identified challenges in applying fair value in the public sector. Constituents concerns with fair value relate to the fact that when an item is held for its operational capacity, as is often the case in the public sector, fair value is difficult to apply because the following concepts do not apply:
  - (a) Highest and best use; and
  - (b) Maximizing the use of market participant data.
4. In September 2020, staff presented a public sector alternative to fair value measurement: current cost. The IPSASB instructed staff to revisit the current cost measurement basis and:
  - (a) Refine the principles of current cost and explore other terminology to better explain the basis;
  - (b) Develop examples illustrating how current cost is applied; and
  - (c) Clarify the differences between current cost, value in use and fair value, and consider whether there can be measurement techniques hierarchies as for fair value.



### Analysis

5. The purpose of the analysis is to develop a current value measure that considers the key characteristics of the public sector that are not captured by other measurement bases. Since fair value is applicable when assets are held for their financial capacity, the public sector current value measure must be applicable when assets are held for their operational capacity.

*Refine the Principles of Current Cost and Explore Other Terminology to Better Explain the Basis*

### Explore Other Terminology

6. Prior to and during the September meeting, members expressed reservations with the term “current cost”. These concerns related to:

- (a) The same term is used in the IASB conceptual framework, but with a slightly different definition;
  - (b) The public sector context was not apparent as the definition was based on the IASB definition; and
  - (c) The use of “cost” may unintentionally imply this is only applicable with the cost approach measurement technique (or replacement cost).
7. Since the principle is broader than “cost”, a new term, **current service value**, is proposed to more accurately capture the principles proposed in paragraphs 8–18.

Refine the Principles of Current Cost

8. At the September meeting<sup>1</sup>, staff proposed current cost be defined as follows:
- The cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date.
9. The current cost definition was developed to be applicable when measuring assets for their operational capacity. Having considered member comments, staff concluded the following three aspects of the term “equivalent asset” could be refined to better reflect the public sector nature of the measurement basis:
- (a) A valuation from the entity’s perspective;
  - (b) The service potential of an asset; and
  - (c) Modern equivalent asset.

**Entity’s Perspective**

10. Assets held for their operational capacity are not expected to be sold in the foreseeable future.<sup>2</sup> The amount the entity could receive from a market participant is irrelevant to users of the financial information.
11. The most useful valuation information for assets held for their operational capacity is the value of the asset to the entity. In order to evaluate this valuation, an entity would measure the amount it would be willing to incur to replace the asset being measured, i.e., the cost of the asset plus any transaction costs.

**Service Potential**

12. The Conceptual Framework describes an asset as an item with service potential or the ability to generate economic benefits (Chapter 5.7).

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<sup>1</sup> See September Agenda Item 7.2.16.

<sup>2</sup> An entity determines the primary purpose for holding an asset by applying professional judgement. See September Agenda Items 7.2.22 and 7.2.23.



- (a) **Generate economic benefits.** Fair value measurement applies to assets held for their financial capacity. Since economic benefits relate to financial capacity, this characteristic is addressed.
- (b) **Service potential.** Assets held for their operational capacity are held to deliver a service. Since the purpose of current service value is to measure operational capacity, service potential should be included in the definition.

### **Modern Equivalent Asset**

- 13. During the June and September meetings, members instructed staff to clarify where and how to apply the concept of a modern equivalent asset.
- 14. A modern equivalent asset is a notional asset providing an equivalent service potential as the existing asset while using the latest technology available.<sup>3</sup> For example, a city's aging sewer network maybe built largely of iron pipes. The network would be replaced today with plastic or similar pipes.
- 15. When an asset is measured based on the service potential it provides and from the entity's perspective, a modern equivalent asset valuation provides the most useful information to the entity. This is because the cost to replace the existing asset is irrelevant. If the service is to be replaced, it would be replaced with the most current version of the asset.
- 16. This clarification also helps constituents with a practical problem. It aligns accounting and valuation principles applied when valuing assets held for operational capacity in practice.

### Definition

- 17. In order to incorporate the entity's perspective, *service potential* and **modern equivalent asset**, the principle proposed is as follows:

The cost to replace the service potential requirement, comprising the consideration that would be paid for a **modern equivalent asset** at the measurement date plus the transaction costs that would be incurred at that date.

*Develop examples illustrating how current cost is applied.*

- 18. Since this measurement basis will be primarily applied to measuring the operational capacity of an asset, staff expect it to be applied in the following IPSAS:
  - (a) IPSAS 17 (ED 78), *Property, Plant, and Equipment*;
  - (b) IPSAS 21, *Impairment of Non-Cash Generating Assets*;
  - (c) IPSAS 32, *Service Concession Arrangements*; and
  - (d) IPSAS 40, *Public Sector Combinations*.

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<sup>3</sup> Paragraph D30 of CP, *Measurement*.

19. With each of the IPSAS listed above having an element of PP&E, the three Board-approved measurement techniques were considered in this context when determining whether the technique is applicable when estimating current service value:

(a) Market Approach (**IPSASB decided technique applied to “current cost” in September 2020**)

Yes – A market price for an asset will often be available when the asset is not specialized. The market price represents the amount an entity would have to incur to replace the asset. The market price is only used when an identical or similar asset exists.

(b) Cost Approach (**IPSASB decided technique applied to “current cost” in September 2020**)

Yes – When assets are specialized, it is unlikely a market will exist. As a result, an entity will build up the cost to replace the asset using inputs other than identical assets.

(c) Income Approach (**IPSASB instructed further analysis whether approach applied to “current cost”**)

Yes – While the income approach uses the economic benefits of the asset in the valuation, when used to measure current service value, the income approach is used to approximate the service potential of the asset. This is because the expected cash flows of the asset approximate the amount an entity would be willing to pay to replace the asset.

*Clarify the differences between current cost, value in use and fair value, and consider whether there can be measurement techniques hierarchies as for Fair Value.*

20. Each measurement technique can be summarized as follows:

Fair Value	Current Service Value	Value in Use <sup>4</sup>
Measures how much an entity would receive to <b>sell</b> an asset.	Measures how much an entity would pay to <b>replace</b> an asset.	Measures how much the asset is worth <b>in use and disposal</b> .
Therefore: - Measure from market participant perspective; - Highest and best use; - Exit value.	Therefore: - Measure from entity perspective; - Entry value.	Therefore: - Measure from entity perspective; - Exit value.

See [Appendix A](#) for a detailed comparison of current service value, value in use and fair value.

21. Staff considered developing a hierarchy that could be applied when selecting a measurement technique to apply when estimating current service value. Staff considered the following:

(a) Market approach is the most objective technique. It best captures the basis' attributes when a market price exists that approximates the current service value; and

<sup>4</sup> Accepting the current service value recommendations in this Agenda Item have knock on effects on Value in Use. See Agenda Item 1.2.3.

- (b) Cost approach best captures the basis' attributes where there is limited or no market data for specialized public sector assets. It is likely to be commonly applied in the public sector.
22. Based on paragraph 21, a measurement technique hierarchy for current service value would be consistent with fair value – use the market approach when available. However, it is important to distinguish current service value from fair value where possible. Staff see value in adding hierarchy discussion in the basis for conclusions and recommend allowing for professional judgement when applying principles in the core text.

**Decision Required**

23. Does the IPSASB agree with the staff recommendation?

## Appendix A – Current service value compared to other ED 77 measures

### *Differences in assumptions between fair value and current service value*

	Fair Value	Current Service Value	Value in Use
Asset Valuation	X	X	X
Liability Valuation	X		
<i>Characteristics of Asset Valuation</i>			
Perspective	Market Participant (how much could an entity sell the asset for)	Entity-Specific (how much could an entity pay to acquire the asset)	Entity-Specific (what is the value of the asset in use)
Capacity	Financial Capacity (how much economic benefit can the entity receive from the asset)	Operational Capacity (what is the value of the asset to the entity)	Financial Capacity (what are the future economic benefits of the asset)

### ***Current Service Value (measurement basis) and Replacement Cost (measurement technique)***

At the September meeting some members noted there were similarities between current service value, then “current cost”, and the cost approach measurement technique.

In fact, current service value and cost approach share many aspects. This is because the cost approach can be applied to estimate current service value. However, the cost approach can also be applied to estimate fair value. This is where the difference lies between cost approach and current service value. When estimating a measurement basis, the measurement technique considers the attributes of the measurement basis. For example, fair value includes highest and best use, current service value does not. When estimating fair value using the cost approach, highest and best use of the asset is considered. This is not the case when estimating current service value.

The cost approach is malleable depending on the measurement basis to which it is applied. As such it will share many aspects with current service value. However, current service value is not malleable, its attributes do not change.

### ***Current Service Value and Current Cost***

Current Cost (September 2020 definition)	Current Service Value (October 2020 principle)
The cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date.	The cost <u>to replace the service potential requirement</u> , comprising the consideration that would be paid for a <u>modern</u> equivalent asset at the measurement date plus the transaction costs that would be incurred at that date.

### ***Definitions***

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.

Transaction price (taken from the Financial Dictionary)

The **price** of a good or service expressed relative to the same quantity of another good or service.

Price (taken from the Financial Dictionary)

The **value** of a thing with real or perceived worth. Price represents the amount of value the market has assigned, fairly or unfairly, to a good or service.

## What is Value in Use?

### Questions

1. Is value in use (VIU) a measurement basis that should be retained in the IPSASB Conceptual Framework (IPSASB Framework)?
2. If VIU is to be retained should its definition cover both cash-generating and non-cash-generating assets?
3. If covering only cash-generating assets should the definition be the same as, or virtually the same as, that in the IASB Framework?

### Recommendations

4. Board Sponsor and staff recommend that:
  - VIU should be retained as a measurement basis in the IPSASB Framework;
  - The definition of VIU should in future only relate to cash-generating assets, and exclude non-cash-generating assets; and
  - The revised definition of VIU should align with the definition of VIU in the IASB's 2018 Conceptual Framework (the IASB Framework).

### Background

5. Following initial discussion at the June 2020 meeting, the IPSASB further discussed VIU at the September meeting. Staff proposed retaining the existing definition of VIU in the IPSASB Framework. The existing definition covers both cash-generating and non-cash-generating contexts. The IPSASB instructed staff to carry out further analysis on whether VIU should be identified as a measurement basis. Such analysis should be carried out in conjunction with the analysis of the current cost measurement basis and work on measurement techniques.

### Analysis

6. Staff have identified two options:
  - (a) **Retain** – Retain the current definition of VIU in IPSASB Framework, covering both cash-generating assets and non-cash-generating assets – i.e. the September meeting proposal; or
  - (b) **Modify** – Include VIU as a measurement basis for cash-generating assets, but with a definition that does not include non-cash-generating assets and is aligned with the IASB definition.
7. The current definition of VIU in the IPSASB Framework 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.
8. As stated in the June and September agenda papers this definition differs substantively from that in the IASB Framework in that it includes service potential (reference underlined above), which reflects the service delivery objective of entities for which the IPSASB is developing standards. If

the Board decides to include Current Service Value as a measurement basis, then this would provide a basis for measuring service potential, so removing the need to address this through the VIU definition. Like VIU, Current Service Value is also an entity-specific measurement basis.

9. The IASB definition/description excludes service potential and is income based:

The present value of the cash flows, or other economic benefits<sup>5</sup>, that an entity expects to derive from the use of an asset and from its ultimate disposal.

10. The IASB Framework stated that VIU may not be a practical measurement basis for regular remeasurements of individual assets used in combination with other assets. In such cases VIU has to be determined for a group of assets and an allocation made to individual assets. Such a process can be subjective, arbitrary, complex, costly, and difficult to verify. VIU is therefore most useful for occasional remeasurements of assets in, for example, impairment testing.<sup>6</sup> Staff thinks that these reservations are relevant in the public sector and should be included in the revised Measurement chapter.
11. Application of VIU at standards level in IPSASB literature is currently limited to assessments of impairment losses. There are separate definitions of 'value in use of a non-cash-generating-asset' in IPSAS 21, *Impairment of Non-Cash-Generating Assets* and 'value in use of a cash-generating asset', in IPSAS 26, *Impairment of Cash-Generating Assets*. These definitions reflect the different objectives of non-cash and cash-generating assets<sup>7</sup> and are not aligned.
12. IPSAS 21 is not consistent with either Option (a) or Option (b). For Option (a) the definition of 'value in use of a non-cash-generating asset' in IPSAS 21 does not include the net proceeds of disposal. Under Option (b) only cash-generating assets are within the scope of the revised definition in the IPSASB Framework. Therefore, as part of general housekeeping, IPSAS 21 will need to be reviewed regardless of which option is adopted.
13. The advantages and disadvantages of Option (a) and Option (b) are detailed in the table below.

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<sup>5</sup> IASB staff has explained that the phrase, or other economic benefits, which is not used in the IPSASB Framework reflects the possibility that the inflows that the entity receives might not be in the form of cash. The term 'other economic benefits' is not used in the Framework and staff therefore consider that it should not be included in a revised definition of VIU.

<sup>6</sup> See paragraph 6.75 of the IASB Framework.

<sup>7</sup> IPSAS 21.14 defines VIU of a non-cash-generating asset as the present value of an asset's remaining service potential. In comparison, IPSAS 26.13 defines VIU of a cash-generating asset as the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. [underlining added for emphasis]

**Table One - Advantages and Disadvantages of Options**

	Option A	Option B
<b>Advantages</b>	<ul style="list-style-type: none"> <li>VIU as currently defined (including service potential) would continue to be potentially relevant to the majority of assets held by entities for which IPSASB is designing standards, because these assets are primarily held for operational capacity.</li> </ul>	<ul style="list-style-type: none"> <li>No overlap with proposed Current Service Value basis (if adopted)</li> <li>Adopting the same definition as the IASB (potentially subject to deletion of the term 'other economic benefits') responds to the advice of a number of members of the Consultative Advisory Group to use terminology consistent with that of the IASB.</li> <li>Consistent with recent IPSASB decisions in other projects to use terminology drawn from IASB literature consistently, or clearly articulate the difference and use public sector terminology;</li> <li>Provides more flexibility in retaining or modifying approaches to impairment for non-cash-generating assets, because such approaches will be evaluated against broader objectives of measurement and financial reporting, rather than the VIU definition in the IPSASB Framework.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>Significant overlap, and therefore potential for confusion, as service potential would also be addressed through proposed Current Service Value (if this basis is adopted).</li> <li>Inconsistent with the IASB Framework.</li> </ul>	<ul style="list-style-type: none"> <li>Narrower VIU definition in IPSASB literature would potentially make it only applicable in a much more limited number of cases.</li> </ul>



**Next Steps**

14. Regardless of which option is adopted the requirements and guidance in IPSAS 21 will need to be reassessed. Staff consider that there are no immediate implications for IPSAS 26, as the definition of 'value in use of a cash-generating asset' in IPSAS 26 is consistent with both options.
15. Board Sponsor and staff support Option (b) for the reasons identified in Table 1.

**Decision Required**

16. Does the IPSASB agree with the Board Sponsor and staff recommendations in paragraph 3?

## Depreciation and Impairment

### Question

Does the IPSASB agree depreciation and impairment are applicable for the historical cost model and the current value model?

### Recommendation

2. Staff recommend:
  - (a) ED 77 should clarify depreciation and impairment are applicable for both the historical cost model and the current value model; and
  - (b) The clarification should be made in the core text of ED 77.

### Background

3. In the September 2020 Board Papers, guidance in the historical cost appendix of [draft] ED, Measurement indicated historical cost is updated to depict:
  - (a) Consumption of the resource (depreciation); and
  - (b) Events that make the amount of the asset no longer recoverable (impairment).
4. Some members asked whether depreciation and impairment should only be discussed in the context of historical cost, as they indicated it is also relevant to the current value measurement model.

### Analysis

5. Members correctly noted that impairment and depreciation are applied to an asset measured at historical cost or at its current value. Some examples from existing guidance include:

	Historical Cost Model	Current Value Model
Depreciation	PP&E is carried at cost, less any accumulated depreciation (IPSAS 17.43)	PP&E carried at fair value is revalued at the measurement date, less accumulated depreciation (IPSAS 17.44)
Impairment	PP&E is carried at cost, less any impairment (IPSAS 17.43)	PP&E carried at fair value is revalued at the measurement date, less any impairment (IPSAS 17.43)
	The impairment requirements are applied to financial assets measured at amortized cost and those measured at fair value (IPSAS 41.62)	

See [Appendix A](#) for text reproduced from IPSAS.

6. Given depreciation and impairment apply for both measurement models, staff recommends that the concepts should be covered in the core text. This is consistent with the current structure of the core text that allows constituents to grasp all principles and concepts without having to review the application guidance. As the application guidance only expands on principles in the core text, no

new principles, such as depreciation and impairment, should be introduced for the first time outside of the core text.

7. Paragraphs have been developed in ED 77 stating the depreciation and impairment are applicable for both measurement models, and provide a full explanation of each concept. See paragraphs 47-49 of ED 77.

**Decision Required**

8. Does the IPSASB agree with the staff recommendation?

## **Appendix A – IPSAS Excerpts**

### *IPSAS 17, Property, Plant, and Equipment*

- Paragraph 43      **After recognition as an asset, an item of property, plant, and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses.**
- Paragraph 44      **After recognition as an asset, an item of property, plant, and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 54–56.**

### *IPSAS 41, Financial Instruments*

- Paragraph 62      **An entity shall apply the impairment requirements in paragraphs 73-93 to financial assets that are measured at amortized cost in accordance with paragraph 41 and to financial assets that are measured at fair value through net assets/equity in accordance with paragraph 41.**

## **Initial Measurement**

### **Question**

1. Does the IPSASB agree:
  - (a) “Initial Measurement” of the asset or liability occurs on the transaction date?
  - (b) On initial measurement the entity should enter an asset or liability in its accounting records at its transaction price or, where transaction price is not available, at a deemed cost?
  - (c) “Measurement in the Financial Statements” is the approach to measurement taken in the financial statements prepared at the end of the accounting period in which initial measurement takes place, and for subsequent accounting periods?
  - (d) The approach taken for measurement in the financial statements will depend on the entity’s measurement model and applicable accounting policies, ensuring that the qualitative characteristics are met and the constraints on information in GPFRs are considered?

### **Recommendation**

2. Staff recommend:
  - (a) “Initial Measurement” is applied when an asset or liability is first entered in the entity’s records, which is when the entity gains control of the asset or incurs a present obligation (“the transaction date”);
  - (b) Assets and liabilities be measured at the transaction price on initial measurement, unless the transaction price is not available. In this case, an entity applies a measurement technique to determine a deemed cost;
  - (c) “Measurement in the Financial Statements” be applied to reflect the approach to measurement taken in the financial statements prepared at the end of the accounting period in which initial measurement takes place, and for subsequent accounting periods; and
  - (d) The measurement model applied for measurement in the financial statements will depend on the accounting policies selected by the entity to ensure that measurement meets the qualitative characteristics and takes account of the constraints on information in GPFRs.
3. Staff are of the view that the recommendations are consistent with the existing principles in IPSAS. The recommendations do not propose altering the substance of any IPSAS or how they are applied in practice.

### **Background**

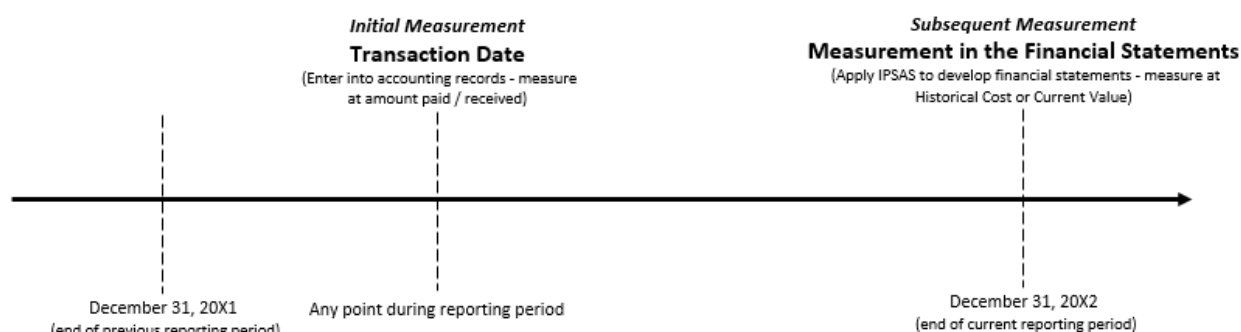
4. At its September 2020 meeting, the IPSASB instructed staff to develop guidance on initial measurement applicable to both the historical cost and current value models. The IPSASB instructed that the guidance should be in the core text.

### **Analysis**

#### *Issue*

5. When developing guidance on initial measurement, staff identified a terminology issue. Throughout IPSAS the term initial measurement relates either to:

- (a) Measurement at the date an asset or liability is first recorded in the financial statements; or
  - (b) Measurement at the date the entity gains control of an asset or incurs a liability (transaction date).
6. Similarly, subsequent measurement is used throughout IPSAS related either to:
- Measurement after the asset or liability is first recorded in the financial statements (a later set of financial statements); or
  - Measurement after the transaction date.
7. For the purposes of this agenda item, the interpretation of initial and subsequent measurement in 5(b) and 6(b) are applied. For clarity, subsequent measurement will be titled “measurement in the financial statements” as this is consistent with the interpretation of subsequent measurement in 6(b) and eliminates one element of confusion. This is outlined in Diagram 1 below:



Based on staff’s experience and outreach during October, this is consistent with the approach applied in practice.

8. To address this terminology issue staff recommends:
- (a) Providing clarify in how the terms are applied in ED, *Measurement* and ED, *Conceptual Framework – Limited-Scope Update*; and
  - (b) Not addressing terminology throughout IPSAS unless clarification is required. No respondents identified this issue in the responses to CP, *Measurement* and there appears to be no issues in applying the principles in practice.

## *Initial Measurement (Measurement at the Transaction Date)*

9. An element should be measured in a way that most fairly reflects the cost of service, operational capacity and financial capacity in a manner that is useful for decision making purposes and to the users of the financial information. To meet this objective at initial measurement, all items, unless otherwise required in a specific IPSAS, are measured at:
- (a) Their transaction price; or
  - (b) A deemed cost if the transaction price is not available.

## Transaction Price

10. The transaction price is the price paid to acquire, construct or produce an asset or incur a liability.

11. Where a transaction occurs in an orderly market, the asset or liability is exchanged in an orderly transaction between market participants at the measurement date under current market conditions.
12. Transactions occurring in orderly markets are negotiated between parties at arm's length and are presumed to faithfully present the economics of the transaction. The transaction price is therefore useful for decision making purposes and to the users of the financial information to hold decision makers to account.

**Deemed Cost**

13. In some cases, it may not be possible to observe a transaction price, or the transaction price may not meet the qualitative characteristics because the asset or liability was not exchanged in an orderly market.
14. A transaction price may not be observable or may not provide relevant information when:
  - (a) The transaction price includes a concessionary element;
  - (b) An asset is transferred to the entity free of charge by a government or donated to the entity by another party;
  - (c) A liability might be imposed by legislation or regulation;
  - (d) A liability to pay compensation or a penalty arises from a legal infringement or breach of contract;
  - (e) The transaction price is affected by relationships between the parties, or by financial distress or other duress of one of the parties;
  - (f) The transaction price information is not available on the date of adoption of IPSAS.
15. In these situations, the transaction price will not faithfully present the economics of the transaction, and the entity must determine a deemed cost as a proxy.
16. Deemed cost is calculated using a current value measurement technique to approximate the value on initial measurement. The measurement techniques under the current value model include market approach, income approach and cost approach. In selecting the measurement technique, an entity considers which method best estimates the economics of the transaction and provides the most relevant and faithfully representative information.
17. See paragraphs 11-17 of the ED, *Measurement* for proposed text.

*Measurement in the Financial Statements (Subsequent Measurement)*

18. In September 2020, the IPSASB agreed the measurement hierarchy applied to subsequent measurement. Staff continue to support this recommendation, but suggest updating the terminology to "measurement in the financial statements" as proposed in this agenda item.
19. After initial measurement, the entity makes an accounting policy choice to apply a historical cost or current value measurement model to reflect the measurement objective of the item being measured. The accounting policy choice impacts the measurement when the item is first, and subsequently, recognized in the financial statements.
20. Using the term "measurement in the financial statements" provides the following advantages:

- (a) It eliminates confusion related to the interpretation of subsequent measurement as noted in paragraph 6.
- (b) It sets the hierarchy in the context of the application of IPSAS in the preparation of financial statements, highlighting the importance of measurement. While important, initial measurement is only a small part of the CF-LSU and Measurement projects<sup>8</sup>, which focus on measurement in the financial statements, with guidance being developed for each basis.

**Decision Required**

21. Does the IPSASB agree with the Staff recommendation?

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<sup>8</sup> ED, *Measurement*, and the Measurement chapter of the Framework address financial reporting in the financial statements and only address bookkeeping when necessary. There should not be a disproportionate emphasis on initial measurement.



### **Supporting Document 1 – Overview of Measurement Bases**

To support constituents in understanding the measurement bases, their attributes and which measurement techniques can be applied to estimate the basis, staff developed slides that provide an overview of the IPSASB's measurement framework.

The slides are provided for informational purposes. However, staff is of the view they may support members in seeing how the project fits together.

Note – Historical cost is under development pending IPSASB decisions in December 2020.

## Historical Cost

Historical Cost Basis

## Current Value Model

**Current Service Value**

Fair Value

Cost of Fulfillment

Value in Use

### What is Current Service Value

- The cost to replace the service potential of a modern equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date.
- Current service value measures an asset from the perspective of the entity that holds the asset.

### Attributes of Current Service Value

#### Valuation

- ☒ Asset Valuation  
☐ Liability Valuation

#### Perspective

- ☒ Market Participants  
☐ Entity Specific

#### Other

- ☐ Exit Value  
☐ Highest and Best Use

### Application of Current Service Value

- Current service value is appropriate for measuring assets that are held primarily for their operating capacity.
- Standards that require a current service value measurement include IPSAS 17, IPSAS 21, IPSAS 32 and IPSAS 40.

#### Market Approach

*(market price of an identical asset/liability)*

A market price for an asset will often be available when the asset is not specialized. The market price represents the amount an entity would have to incur to replace the asset. The market price is only used when an identical or similar asset exists.

#### Cost Approach

*(cost to replace the service of asset)*

When assets are specialized, it is unlikely a market will exist. As a result, an entity will build up the cost to replace the asset using inputs other than identical assets.

#### Income Approach

*(discount expected cash flows)*

When used to measure current service value, the income approach is used to approximate the service potential of the asset. The expected cash flows of the asset approximate the amount an entity would be willing to pay to replace the asset.

## Historical Cost

Historical Cost Basis

## Current Value Model

Current Service Value

**Fair Value**

Cost of Fulfillment

Value in Use

### What is 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.
- Fair value measures an asset or liability from the perspective of a market participant.

### Attributes of Fair Value

#### Valuation

- ☒ Asset Valuation
- ☒ Liability Valuation

#### Perspective

- ☒ Market Participants
- ☐ Entity Specific

#### Other

- ☒ Exit Value
- ☒ Highest and Best Use

### Application of Fair Value

- Fair value is most applied when measuring assets that are held primarily for their financial capacity.
- Standards that require a fair value measurement include IPSAS 41, IPSAS XX...

#### Market Approach

*(market price of an identical asset/liability)*

A market price for an asset will often be available when the item is held for its financial capacity. The market price represents the amount an entity would be able to receive for the asset, or pay to transfer the liability. The market price is only used when an identical or similar asset exists.

#### Cost Approach

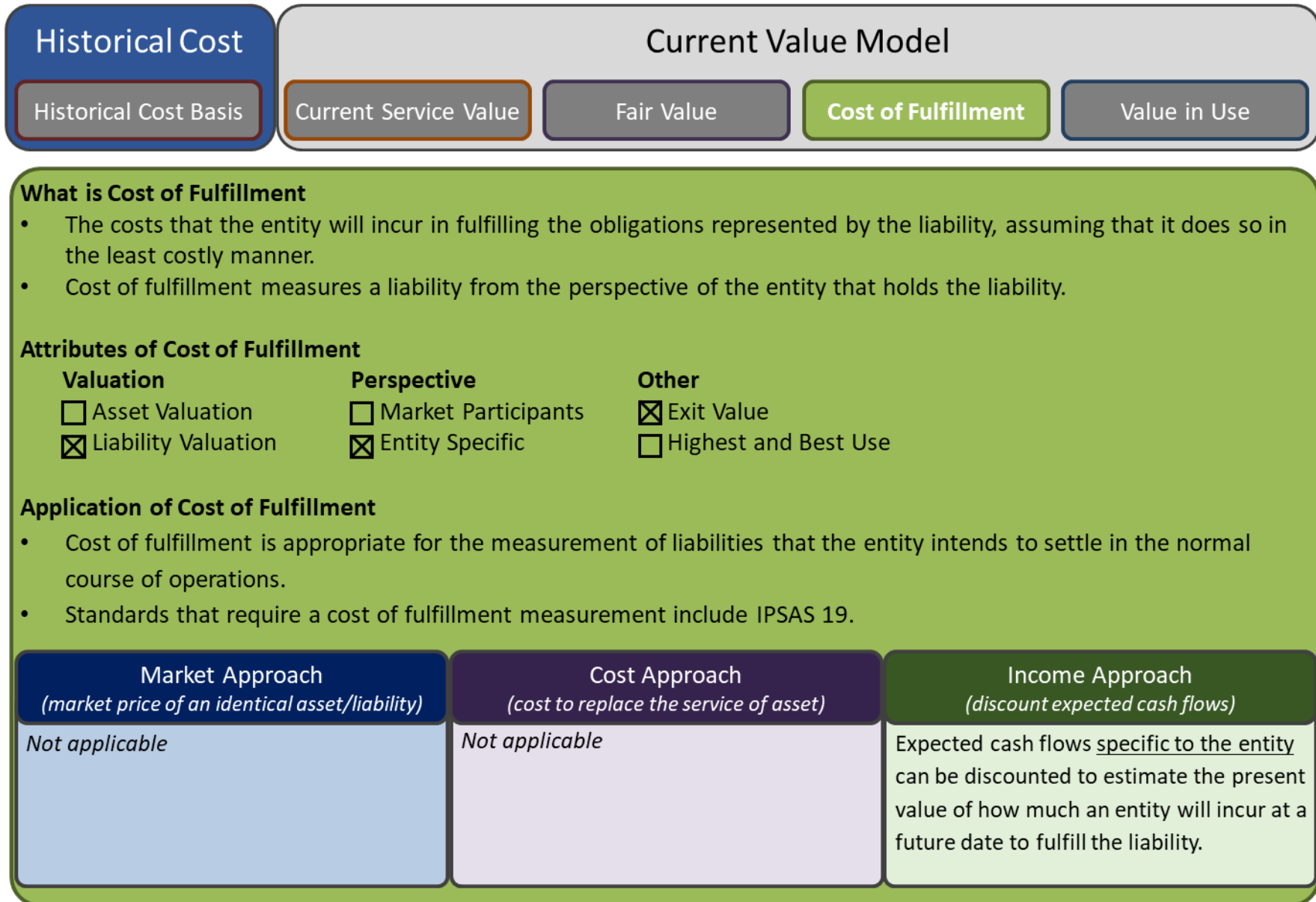
*(cost to replace the service of asset)*

When no market exists, the cost to replace the asset can be used to estimate fair value.

#### Income Approach

*(discount expected cash flows)*

When no market exists, expected cash flows approximate the amount an entity would receive to sell an asset or pay to transfer a liability.



## Historical Cost

Historical Cost Basis

## Current Value Model

Current Service Value

Fair Value

Cost of Fulfillment

**Value in Use**

### What is Value in Use

- The present value of the cash flows, or other resources, that an entity expects to derive from the use of an asset and from its ultimate disposal.
- Value in use measures an asset from the perspective of the entity that holds the asset.

### Attributes of Value in Use

#### Valuation

- ☒ Asset Valuation
- ☐ Liability Valuation

#### Perspective

- ☐ Market Participants
- ☒ Entity Specific

#### Other

- ☒ Exit Value
- ☐ Highest and Best Use

### Application of Value in Use

- Value in use is applied for the purpose of determining impairment.
- Standards that require a value in use measurement include IPSAS 26.

#### Market Approach

*(market price of an identical asset/liability)*

Not applicable

#### Cost Approach

*(cost to replace the service of asset)*

Not applicable

#### Income Approach

*(discount expected cash flows)*

Expected cash flows specific to the entity can be discounted to estimate the value of the asset to the entity.

**Supporting Document 2 – ED 77, *Measurement***

1. Guidance in [draft] IPSAS X, *Measurement* (ED 77) is based on the illustrative exposure draft included in the Measurement Consultation Paper issued in April 2019. Text has been updated to reflect:

- (a) IPSASB decisions made in September 2020; and
- (b) IPSASB instructions made in September 2020.

The text has also been updated to illustrate the recommendations proposed in Agenda Item 1.

2. Key changes to the text are summarized as follows:

**(a) Core Text.**

- (i) Re-ordered guidance on measurement bases to reflect application in the public sector (historical cost, current service value, fair value, cost of fulfillment and value in use)
- (ii) Added guidance on initial measurement (para. 11-17)
- (iii) Added guidance on depreciation and impairment (para. 47-49)

**Historical Cost (minor changes).**

- (i) Generic asset / liability guidance moved to core text
- (ii) Initial measurement guidance removed (now in core text)

**Current Service Value (minor changes).**

- (i) Generic asset / liability guidance moved to core text

**(d) Fair Value (minor changes).**

- (i) Generic asset / liability guidance moved to core text

**(e) Cost of Fulfillment (minor changes).**

- (i) Generic asset / liability guidance moved to core text
- (ii) Fulfillment Value updated to Cost of Fulfillment

**Value in Use (minor changes).**

- (i) Generic asset / liability guidance moved to core text

3. Given changes have only been made to reflect October Agenda Items, staff are of the view the highest and best use of a reviewer's time is to focus those changes. Further changes to the guidance in the measurement bases from September and October decisions will be processed for Q4 2020.

**REVIEW INSTRUCTIONS:**

IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 77:

- (a) Authoritative Text (Core Text, Application Guidance and Amendments to Other IPSAS):

## Agenda Item 1.3.2

- (i) A significant portion of ED 77 is imported from the Illustrative ED included with CP, *Measurement*.
- (ii) Changes made to the Illustrative ED are tracked and based on Board Decisions or Instructions to Staff provided in previous meetings.
  - a. Deleted Illustrative ED paragraphs are noted in the “Notes” column. Deleted paragraphs are not tracked to enhance readability.

These components are formatted as follows for easier reference:

Format	Format description
Text	Text imported from the Illustrative ED, is shaded grey
Track changes	Text changed resulting from <b>Board Decisions</b> , comments from respondents, staff recommendation from October 2020 or editorial updates is tracked

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph 1 is IED.1	<b>Objective</b> 1. The objective of this Standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity and financial capacity of assets and liabilities and how to identify approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.	CP, <i>Measurement</i>
Paragraph 2 is IED.2	<b>Scope</b> 2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] IPSAS [X], <i>Measurement</i> in measuring assets and liabilities.	CP, <i>Measurement</i>
Paragraph 3 is IED.3	3. Except as specified in paragraph 4, this IPSAS applies when another IPSAS requires or permits: <ol style="list-style-type: none"> <li>One or more of the measurement bases defined herein or disclosures about one or more of these measurement bases; and</li> <li>Measurements that are based on one or more of the measurement bases (e.g., fair value less costs to sell) or disclosures about those measurements.</li> </ol>	CP, <i>Measurement</i>
Paragraph 4 is IED.4	4. <u>The measurement and disclosure requirements of this IPSAS do not apply to the following:</u> <ol style="list-style-type: none"> <li><u>Leasing transactions accounted for in accordance with IPSAS 13, <i>Leases</i>; and</u></li> <li><u>e.b. [Include exceptions here, once identified.]</u></li> </ol>	CP, <i>Measurement</i>
Paragraph 5 is IED.5	<del>4.5.</del> The measurement application guidance described in this IPSAS applies to both initial and subsequent measurement.	CP, <i>Measurement</i>
Paragraph 6 is IED.6	<del>5.6.</del> The following terms are used in this Standard with the meanings specified:	
	<b>Active market</b> is 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.	
Current service value definition has been added (see October 2020 Agenda Item 1.2.2)	<del>Current cost</del> <u>service cost is the cost to replace the service potential requirement, comprising the consideration that would be paid for a modern equivalent asset at the measurement date</u> <del>the cost of an equivalent asset at the measurement date.</del>	-
	<b>Cost approach</b> is a measurement technique that reflects the amount that would be required currently to replace the service of an asset (often referred to as current replacement cost).	IFRS 13 <i>Appendix A</i>
	<b>Entry price</b> is the price paid to acquire an asset or received to	IFRS 13 <i>Appendix A</i>



NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	assume a liability in an exchange transaction.	
	<u>Exit price</u> is the price received to sell an asset or paid to transfer a liability.	IFRS 13 Appendix A
	<u>Expected cash flow</u> is the probability-weighted average (i.e., mean of the distribution) of possible future cash flows.	IFRS 13 Appendix A
	<u>Fair value</u> 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.	IFRS 13 Appendix A
	Cost of <u>settlement/fulfillment</u> 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.	
	<u>Highest and best use</u> is the use of a non-financial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (e.g., an operation) within which the asset would be used.	IFRS 13 Appendix A
	<u>Historical cost of an asset</u> 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.	
	<u>Historical cost of a liability</u> 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.	
	<u>Income approach</u> is a measurement technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount.	Based on IFRS 13 Appendix A
	<u>Inputs</u> are the assumptions used when pricing the asset or liability, including assumptions about risk, such as the following:  <ul style="list-style-type: none"> <li>(a) The risk inherent in a particular measurement technique used to estimate a measurement basis (such as a pricing model); and</li> <li>(b) The risk inherent in the inputs to the measurement technique.</li> </ul> Inputs may be observable or unobservable.	Based on IFRS 13 Appendix A
	<u>Level 1 inputs</u> are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	IFRS 13 Appendix A
	<u>Level 2 inputs</u> are 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
	<u>Level 3 inputs</u> are unobservable inputs for the asset or	IFRS 13 Appendix A

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	liability.	
	<b>Market approach</b> is a measurement technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as an operation.	IFRS 13 Appendix A
	<b>Market participants</b> are buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics: <ul style="list-style-type: none"> <li>(a) They are independent of each other, i.e., they are not related parties as defined in IPSAS 20, <i>Related Party Disclosures</i>, 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.</li> <li>(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.</li> <li>(c) They are able to enter into a transaction for the asset or liability.</li> <li>(d) They are willing to enter into a transaction for the asset or liability, i.e., they are motivated but not forced or otherwise compelled to do so.</li> </ul>	IFRS 13 Appendix A
Definition is removed as MV is not a MB (see June Agenda Item 6.2.3)		
Definition is removed as MV is not a MB (see June Agenda Item 6.2.3)		
	<b>Market-corroborated inputs</b> are inputs that are derived principally from or corroborated by observable market data by correlation or other means.	
	<b>Most advantageous market</b> is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.	IFRS 13 Appendix A
	<b>Non-performance risk</b> is 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
	<b>Observable inputs</b> are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that	IFRS 13 Appendix A

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	market participants would use when pricing the asset or liability.	
	<b><u>Orderly transaction</u></b> is 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 (e.g., a forced liquidation or distress sale).	IFRS 13 Appendix A
	<b><u>Principal market</u></b> is the market with the greatest volume and level of activity for the asset or liability.	IFRS 13 Appendix A
Definition is removed as RC is not a MB (see June Agenda Item 6.2.5)		
	<b><u>Risk premium</u></b> is the 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
	<b><u>Transaction costs</u></b> are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.	Developed for CP
	<b><u>Transport costs</u></b> are 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
Transaction price definition has been added (see October 2020 Agenda Item 1.2.5)	<b><u>Transaction Price</u></b> is the price paid to acquire an asset or received to assume a liability.	
	<b><u>Unit of account</u></b> is the level at which an asset or a liability is aggregated or disaggregated in an IPSAS for recognition purposes.	IFRS 13 Appendix A
	<b><u>Unobservable inputs</u></b> are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.	IFRS 13 Appendix A
VIU definition has been added (see September 2020 Agenda Item 7.2.17)	<b><u>Value in use</u></b> 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.	IPSASB Conceptual Framework 7.58
	Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the <i>Glossary of Defined Terms</i> published separately.	
	<b>Measurement</b>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<b><u>The Asset or Liability</u></b>	
Paragraph 7 is based on IED.A2	<p>7. A measurement basis is applied to a particular asset or liability. Therefore, when applying the measurement basis an entity shall take into account the characteristics of the asset or liability at the measurement date (for fair value measurement the characteristics are considered if market participants would take those characteristics into account when pricing the asset or liability). Such characteristics include, for example, the following:</p> <ul style="list-style-type: none"> <li>a. The condition and location of the asset; and</li> <li>b. Restrictions, if any, on the sale or use of the asset.</li> </ul>	Based on IFRS 13.11
Paragraph 8 is based on IED.A3	<p>8. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the entity, for entity-specific measurements, and by market participants, for market-based measurements.</p>	Based on IFRS 13.12
Paragraph 9 is based on IED.A4	<p>9. The asset or liability measured might be either of the following:</p> <ul style="list-style-type: none"> <li>a. A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or</li> <li>b. A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).</li> </ul>	Based on IFRS 13.13
Paragraph 10 is based on IED.A2	<p>10. Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its <i>unit of account</i>. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the fair value measurement, except as provided in this Standard.</p>	Based on IFRS 13.14
	<b><u>Initial Measurement</u></b>	
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	<p>11. On the transaction date, an item that qualifies for recognition shall be initially measured at its transaction price, unless that transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.</p>	NEW IPSASB CF 7.2
	<b><u>Transactions in an Orderly Market</u></b>	
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	<p>12. When an asset is acquired or a liability is assumed in an orderly market, the transaction price reflects the initial value of the asset or liability negotiated between market participants at the measurement date under current market conditions.</p>	Based on C21 of FV AG for consistency
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	<p>13. Where a transaction price exists, it is presumed to present relevant information on the date the transaction occurred. When determining whether the transaction price presents relevant information about the asset or liability, an entity shall consider</p>	-

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<u>factors specific to the transaction and to the asset or liability.</u>	
	<u>Deemed Cost</u>	
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	<u>14. When an asset is acquired or a liability is assumed, as a result of an event that is not a transaction in an orderly market, it may not be possible to observe a transaction price, or the transaction price may not provide relevant information about the asset or liability. In some such cases, a current value measurement technique is used as a deemed cost on initial recognition to estimate the value of the asset or liability. Current value measurement techniques are described in paragraphs 39-49.</u>	IASB's CF 6.6
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	<u>15. Any difference between deemed cost and any consideration given or received would be recognized as income or expenses, unless otherwise required in the relevant IPSAS.</u>	IASB's CF 6.6 and 6.81
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	<u>16. Assets may be acquired, or liabilities may be assumed, as a result of an event that is not a transaction in an orderly market when:</u>  <u>a. The transaction price includes a concessionary element;</u> <u>b. An asset is transferred to the entity free of charge by a government or donated to the entity by another party;</u> <u>c. A liability might be imposed by legislation or regulation; or</u> <u>d. A liability to pay compensation or a penalty arises from an act of wrongdoing or breach of contract; or</u> <u>e. The transaction price is affected by relationships between the parties, or by financial distress or other duress of one of the parties.</u>	Based on IASB's CF 6.80
Guidance on initial measurement has been added (see October Agenda Item 1.2.5)	<u>17. When assets are acquired, or liabilities assumed, as a result of an event that is not a transaction in an orderly market, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognize other assets, other liabilities, contributions from holders of equity claims or distributions to holders of equity claims to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position and any related effect on the entity's financial performance.</u>	IASB's CF 6.82
	<b><u>Subsequent Measurement</u></b>	
	<b>Measurement Models</b>	
Paragraph 18 is added to provide an overview of measurement bases	<u>6-18.</u> Elements recognized in financial statements are quantified in historical terms or current terms. This requires the selection of a historical or current value measurement model. Selecting the measurement model considers the characteristics of the item, the measurement objective and the monetary information being presented.	Based on IASB's Conceptual Framework paragraphs 6.1

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	<b>Measurement Bases</b>	
Paragraph 19 is added to provide an overview of measurement bases	<b>7.19.</b> A measurement basis provides the most relevant and faithfully representative information under the measurement model selected. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.	Based on IASB's Conceptual Framework paragraphs 6.1
Paragraph 20 is IED.7  The order has been updated to align with the measurement hierarchy in the CF.	<b>8.20.</b> When another IPSAS establishes measurement requirements with reference to one or more of the measurement bases below an entity shall apply the application guidance in the relevant appendix:  a. Historical cost (Appendix A: Historical cost–application guidance);  b. Current cost (Appendix B: Current cost – application guidance);  c. Fair value (Appendix C: Fair value–application guidance);  d. Cost of <b>SettlementFulfillment</b> (Appendix D: Fulfillment value–application guidance); and  e. Value in use (Appendix E: Value in use – application guidance);	-
	<i>Historical cost</i>	
Paragraph 21 is IED.14	<b>9.21.</b> Historical cost is an entry, entity-specific value. (The term “historical cost” may also be referred to as the “cost model” or generically as “cost-based measures”). Historical cost measures provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.	IASB's CF 6.4 and IPSASB's CF 7.14
Paragraph 22 is IED.15  Section deleted as depreciation is not unique to HC.	<b>10.22.</b> Following initial recognition, the measurement of an asset is not changed to reflect changes in prices or increases in the value of the asset.	IPSASB CF 7.14
	<i>Current <b>Service ValueCost</b></i>	
Paragraph 23 has been added to include CC as a measurement basis (see September 2020 Agenda Item 7.2.16)	<b>11.23.</b> Current cost is an entry, entity-specific measurement that reflects prices in the market in which the entity would acquire the asset or would incur the liability. It provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Current cost therefore reflects changes in the values of assets and liabilities since the previous measurement date. Similar to fair value, value in use and cost of <b>settlementfulfillment</b> , current cost of an asset or liability is not derived, even in part, from the transaction or event that gave rise to the asset or liability.	Based on FV para. 27 for consistency (CC is entity specific / FV is from market participants perspective)
Paragraph 24 has been added to include CC as a	<b>12.24.</b> Current cost reflects the perspective of the entity measuring the asset or liability. In practice, these entity specific assumptions	Based on FV para. 28 for

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
measurement basis (see September 2020 Agenda Item 7.2.16)	may sometimes approximate assumptions made by market participants in measuring the item.	consistency (CC is entity specific / FV is from market participants perspective)
Paragraph 25 has been added to include CC as a measurement basis (see September 2020 Agenda Item 7.2.16)	<del>13-25.</del> In some cases, current cost can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques. For example, if prices are available for a new asset, the current cost of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.	Based on FV para. 29 for consistency (CC is entity specific / FV is from market participants perspective)
Paragraph 26 has been added to include CC as a measurement basis (see September 2020 Agenda Item 7.2.16)	<del>14-26.</del> Current cost differs from fair value because it: <ul style="list-style-type: none"> <li>a. Is explicitly an entry value that reflects the cost of replacing the service potential of an asset;</li> <li>b. Includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and</li> <li>c. Is entity specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market (e.g., the current 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.)</li> </ul>	IPSASB CF 7.28 (IED.22)
	<b>Fair Value</b>	
Paragraph 27 is IED.8	<del>15-27.</del> Fair value measurement is an exit, market-based measurement that provides monetary information about assets, liabilities and related revenues and expenses, using information updated to reflect conditions at the measurement date. Fair value therefore reflects changes in the values of assets and liabilities since the previous measurement date. The current value of an asset or liability is not derived, even in part, from the transaction or event that gave rise to the asset or liability.	IASB's CF 6.10
Paragraph 28 is IED.9	<del>16-28.</del> Fair value reflects the perspective of market participants. The asset or liability is measured using the same assumptions that a market participant would use when pricing the asset or liability if those market participants act in their economic best interest.	IASB's CF 6.13
Paragraph 29 is IED.10	<del>17-29.</del> In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.	IASB's CF 6.14
	<b>Cost of <del>Settlement</del>Fulfillment</b>	
Paragraph 30 is IED.11	<del>18-30.</del> Cost of <del>settlement</del> fulfillment is an exit, entity-specific cost that the entity will incur in fulfilling the obligations represented by the	IASB's CF 6.17

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	liability, assuming that it does so in the least costly manner. Cost of <del>settle</del> <u>fulfillment</u> is the present value of the cash, or other economic resources, that the entity expects to be obliged to transfer as it fulfils a liability. Those amounts of cash or other economic resources include not only the amounts to be explicitly transferred, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability.	
Paragraph 31 is IED.12	<del>19.31.</del> Cost of <del>fulfillment</del> <u>settlement</u> cannot be observed directly and is determined using cash-flow-based measurement techniques. The cost of <del>fulfillment</del> <u>settlement</u> reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.	Based IASB's CF 6.19 and 6.20
Paragraph 32 is IED.13	<del>20.32.</del> The cost of <del>fulfillment</del> <u>settlement</u> reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.	IASB's CF 6.20
	<del>Historical cost</del>	
Paragraph 21 is IED.14	<del>Historical cost is an entry, entity-specific value. (The term "historical cost" may also be referred to as the "cost model" or generically as "cost-based measures"). Historical cost measures provide monetary information about assets, liabilities and related revenue and expenses, using information derived, at least in part, from the price of the transaction or event that gave rise to them.</del>	<del>IASB's CF 6.4 and IPSASB's CF 7.14</del>
Paragraph 22 is IED.15  <del>Section deleted as depreciation is not unique to HC.</del>	<del>Subsequent to initial recognition, this cost may be allocated as an expense to reporting periods in the form of depreciation or amortization for certain assets, as the service potential or ability to generate economic benefits provided by such assets are consumed over their useful lives. Following initial recognition, the measurement of an asset is not changed to reflect changes in prices or increases in the value of the asset.</del>	<del>IPSASB CF 7.14</del>
Paragraph IED.16 is deleted as impairment is not unique to HC.		
Paragraph IED.17 is deleted as interest is not unique to HC.		
IED.18 is specific guidance and is moved to Historical Cost AG. See <a href="#">A14</a> .		
IED.19 is specific guidance and is moved to Historical Cost AG. See A18.		
IED.20 is removed as RC is not a MB (see June Agenda		



NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Item 6.2.5)		
IED.21 is removed as RC is not a MB (see June Agenda Item 6.2.5)		
IED.22 s removed as RC is not a MB (see June Agenda Item 6.2.5)		
IED.23 s removed as RC is not a MB (see June Agenda Item 6.2.5)		
	<i>Value in use</i>	
Paragraph 36 has been added to include VIU as a measurement basis (see September 2020 Agenda Item 7.2.17)	<u>24.33.</u> Value in use is an entity-specific exit 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. Value in use is the present value of the cash flows, or other economic resources, that the entity expects to derive from the use and its ultimate disposal.	IASB's CF 6.17 And IPSASB's CF 7.59
Paragraph 37 has been added to include VIU as a measurement basis (see September 2020 Agenda Item 7.2.17)	<u>22.34.</u> Value in use cannot be observed directly and is determined using cash-flow-based measurement techniques. Value in use reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those an entity uses itself.	Based on the IASB's CF paragraph 6.19 and 6.20
Paragraph 38 has been added to include VIU as a measurement basis (see September 2020 Agenda Item 7.2.17)	<u>23.35.</u> Value in use reflects the same factors as those reflected in fair value measurement, but from an entity-specific perspective, rather than from a market-participant perspective.	Based on the IASB's CF paragraph 6.20
	Measurement Techniques	
Paragraph 39 is IED.A30. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>24.36.</u> An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to estimate the measurement basis <u>or determine deemed cost.</u>	IFRS 13.61
Paragraph 40 has been added to provide an overview of measurement techniques	<u>25.37.</u> The measurement basis amount <u>or transaction price</u> cannot <u>usuallyalways</u> be observed directly. In such cases, a measurement technique is applied to estimate the amount at which an asset or liability is presented under the selected measurement basis <u>or in determining deemed cost.</u> Such techniques are not measurement bases. When using such a technique, it is necessary for the technique to reflect the attributes applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable attributes are those described in paragraphs 27-29.	Based on IASB CF 6.91
Paragraph 41 is IED.A31. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>26.38.</u> Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs 46 – 49. An entity shall use measurement techniques consistent with one or more of those approaches to estimate the measurement	IFRS 13.62

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	basis.	
Paragraph 42 is IED.A32. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>27.39.</u> In some cases a single measurement technique will be appropriate (e.g., when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple measurement techniques will be appropriate (e.g., that might be the case when valuing a cash-generating unit). If multiple measurement techniques are used to estimate a measurement basis, the results shall be evaluated considering the reasonableness of the range of values indicated by those results.	IFRS 13.63
Paragraph 43 is IED.A33. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>28.40.</u> If the transaction price is a current value measurement at initial recognition and a measurement technique that uses unobservable inputs will be used to estimate the measurement basis in subsequent periods, the measurement technique shall be calibrated so that at initial recognition the result of the measurement technique equals the transaction price. Calibration ensures that the measurement technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the measurement technique is necessary (e.g., there might be a characteristic of the asset or liability that is not captured by the measurement technique). After initial recognition, when measuring a current value using a measurement technique or techniques that use unobservable inputs, an entity shall ensure that those measurement techniques maximize the use observable market data, where appropriate, at the measurement date.	IFRS 13.64
Paragraph 44 is IED.A34. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>29.41.</u> Measurement techniques used to estimate the measurement basis shall be applied consistently. However, a change in a measurement technique or its application (e.g., a change in its weighting when multiple measurement techniques are used or a change in an adjustment applied to a measurement technique) is appropriate if the change results in a measurement that is equally or more representative of the measurement basis in the circumstances. That might be the case if, for example, any of the following events take place:  a. New markets develop; b. New information becomes available; c. Information previously used is no longer available; d. Measurement techniques improve; or e. Market conditions change.	IFRS 13.65
Paragraph 45 is IED.A35. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>30.42.</u> Revisions resulting from a change in the measurement technique or its application shall be accounted for as a change in accounting estimate in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . However,	IFRS 13.66

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
7.2.14)	the disclosures in IPSAS 3 for a change in accounting estimate are not required for revisions resulting from a change in a measurement technique or its application.	
	<i>Market Approach</i>	
Paragraph 46 is IED.A36. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>34.43.</u> The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as an operation.	IFRS 13.B5
	<i>Cost Approach</i>	
Paragraph 47 is IED.A39 and IED.A40. Moved to address structure (see September 2020 Agenda Item 7.2.14)  Amendments to definition made to make generic (see September 2020 Agenda Item 7.2.10)	<u>32.44.</u> The cost approach reflects the amount that would be required currently to replace the service provided by an asset (often referred to as current replacement cost) through the acquisition or construction of a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes.	Paragraphs 47 is IFRS 13.B8 and B9
Paragraph 48 is IED.D30. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>33.45.</u> A substitute asset of comparable utility is calculated as the cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset while using the latest technology available.	-
	<i>Income Approach</i>	
Paragraph 49 is IED.A41. Moved to address structure (see September 2020 Agenda Item 7.2.14)	<u>34.46.</u> The income approach converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the estimate of the measurement basis reflects current expectations about those future amounts.	IFRS 13.B10
	<b><u>Depreciation and Impairment</u></b>	
Paragraph 47 is new (see October Agenda Item 1.2.4)	<u>35.47.</u> Depreciation and Impairment are applicable across all measurement bases. Neither are measurement bases or measurement techniques in their own right. They are methods to reflect the consumption of the asset or loss in the future economic benefits or service potential of the asset.	-
	<b><u>Depreciation</u></b>	
Paragraph 51 is new (see October Agenda Item 1.2.4)	<u>36.48.</u> Depreciation and amortization are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term amortization is generally used instead of depreciation. Both terms have the same meaning.	IPSAS 21.22 and IPSAS 26.19
	<b><u>Impairment</u></b>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph 52 is new (see October Agenda Item 1.2.4)	<u>37-49.</u> Impairment is 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 (amortization). Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it. For example, an entity may have a purpose-built military storage facility that it no longer uses. In addition, because of the specialized nature of the facility and its location, it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. The asset is regarded as impaired, as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives.	Based on IPSAS 21.23 and IPSAS 26.20
	<b>Transaction Costs</b>	
Paragraph 53 is IED.24	<u>38-50.</u> Transaction costs are costs that would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.	CP, Measurement
Paragraph 54 is IED.25	<u>39-51.</u> Incremental costs are a direct result of the transaction. Transaction costs are an essential feature of the transaction, and they would not have been incurred had the transaction not occurred. For example, while costs to operate an asset after it has been acquired are incremental costs because they would not be incurred if the entity had not acquired the asset, these costs are not transaction costs as they are not a direct result of the transaction.	CP, Measurement
Paragraph 55 is IED.26	<u>40-52.</u> Costs attributable to the acquisition of an asset relate specifically to costs of ownership transfer. Costs incurred prior to transfer (e.g., costs to negotiate the transaction), or costs incurred subsequent to the transfer, (e.g., borrowing costs), are excluded from the definition of transaction costs.	CP, Measurement
Paragraph 56 is IED.27	<u>41-53.</u> Including transaction costs in the measurement of an asset or liability is dependent on the objective of measurement. Whether an entity is presenting an entry-based measurement basis or an exit-based measurement basis impacts whether those transaction costs are included or excluded from measurement.	CP, Measurement
Paragraph 57 is IED.28	<u>42-54.</u> Transaction costs can arise when an asset is acquired or a liability is incurred, when an asset is sold or disposed of or a liability is settled or transferred. As transaction costs incurred in acquiring an asset or incurring a liability are a feature of the transaction in which the asset was acquired or the liability was incurred, such transaction costs incurred in entering into a transaction are included in entry-based measurements bases. Transaction costs that would be incurred in selling or disposing of an asset or in settling or transferring a liability are a future or a possible future transaction. As such, transaction costs that would	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	be incurred in exiting a transaction are included in exit-based measurement bases when the measurement base is entity-specific.	
	<b>Effective Date</b>	
Paragraph 58 is added	<b>43.55.</b> An entity shall apply this Standard for annual periods beginning on or after [mm, dd, yyyy]. Earlier application is permitted. If an entity elects to apply this Standard early, it must disclose that fact and apply all the requirements in this Standard at the same time. It shall also, at the same time, apply the amendments in [Appendix [X]: Amendments to Other IPSAS].	-
Paragraph 59 is added	<b>44.56.</b> When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, <i>First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)</i> for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.	-

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<b>Appendix A: Historical Cost – <a href="#">Application</a> <a href="#">Guidance</a></b> <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
	<b>Measurement</b>	
Paragraph A1 is added for consistency across all AGs (see September 2020 Agenda item 7.2.26)	A1. The objective of an historical measurement is to provide monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them.	IASB's CF 6.4
Paragraph A2 is IED.C1 and is amended to provide HC guidance on liabilities (see September 2020 Agenda item 7.2.26)	A2. Historical cost is: <ul style="list-style-type: none"> <li>(a) The consideration given to acquire, construct and/or develop an asset; or</li> <li>(b) The consideration received to incur or take on a liability.</li> </ul> Historical cost is the cash or cash equivalents or the value of the other consideration given or received, at the time of the asset is acquired or developed or the liability is incurred	IPSASB's CF 7.13
Paragraph A3 is IED.C2	A3. An historical cost measurement requires an entity to determine all the following: <ul style="list-style-type: none"> <li>(c) The particular asset or liability that is the subject of the measurement (consistently with its unit of account).</li> <li>(d) The consideration the entity gave to acquire, construct and/or develop the asset, or received to incur the liability, in terms of: <ul style="list-style-type: none"> <li>(i) Cash;</li> <li>(ii) Cash equivalents; and</li> <li>(iii) The value of other consideration.</li> </ul> </li> <li>(c) Factors used to identify what consideration should be included in (or excluded from) the asset or liability's historical cost, including (for example) costs that are directly attributable to its acquisition and/or development and should be included (or not directly attributable and should be excluded).</li> </ul>	
Paragraph IED.C3 is deleted. It is specific application of the general principle to discount the payments in A14. Paragraph is back in IPSAS 16.31.		
Paragraph IED.C4 is deleted. It is specific application of the general principle to use a current value measurement basis.		

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph is back in IPSAS 17.38.		
Paragraph IED.C5 is generic guidance across all AGs. Moved to core text paragraph 9.	<p><del>The Asset Measured at Historical Cost or Liability</del></p> <p><del>The asset or liability measured at historical cost might be one of the following:</del></p> <p><del>A stand-alone asset or liability; or</del></p> <p><del>A group of assets, a group of liabilities or a group of assets and liabilities.:</del></p> <p><del>Assets that form part of a group of assets and liabilities (e.g., a cash-generating unit or an operation).</del></p>	
Paragraph IED.C6 is generic guidance across all AGs. Moved to core text paragraph 10.	<p><del>Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities, or assets that form part of a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset shall be determined in accordance with the IPSAS that requires or permits the historical cost measurement.</del></p>	
	<b>Entity-Specific Value</b>	
Paragraph A4 is IED.C7	<p>A4. Historical cost is an entity-specific value. Identification of the consideration given to acquire, construct and/or develop the asset, or received to incur the liability, requires an understanding of the:</p> <p>(a) Characteristics of the asset or liability;</p> <p>(b) Processes to acquire, construct and/or develop the asset or incur the liability;</p> <p>(c) Procedures and timing for asset use (i.e., its use to provide services and/or generate cash flows) or liability settlement; and</p> <p>(d) The time value of money.</p>	
Paragraph A5 is IED.C8	<p>A5. The entity's:</p> <p>(a) Acquisition and development processes; and</p> <p>(b) Asset usage timing and procedures;</p> <p>Are also asset-specific, so that an historical cost measurement depends on collecting information about how the entity acquired, constructed and/or developed the particular asset and is either readying for use or has put into use.</p>	
Paragraph A6 is added to provide HC guidance	<p>A6. The entity's</p>	



NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
on liabilities (see September 2020 Agenda Item 7.2.26)	<p>(a) Processes for how and when it incurs the liability; and</p> <p>(b) Settlement process;</p> <p>Are also liability-specific, so that an historical cost measurement depends on collecting information about how the entity incurred the particular liability and is planning to settle it.</p>	
<del>Paragraph C9 is added to include guidance on initial recognition (see September 2020 Agenda Item 7.2.15)</del>	<p><b><u>Historical Cost at Initial Recognition Measurement</u></b></p> <p><del>The historical cost of an asset when it is acquired or created is the value of the costtotal cost incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus transaction costs. The historical cost of a liability when it is incurred or taken on is the total costvalue of the consideration received to incur or take on the liability minus transaction costs.</del></p>	<p><del>IASB's CF 6.5</del></p> <p><del>IPSASB CF 7.14</del></p>
Paragraph A7 is added to include guidance on initial recognition (see September 2020 Agenda Item 7.2.15)	<p>A7. Transaction costs incurred in acquiring an asset or incurring a liability are a feature of the transaction in which the asset was acquired or liability was incurred. The historical cost of the asset or liability reflects those transaction costs as the entity could not have acquired the asset or liability without incurring those costs. Transaction costs that could be incurred in selling or disposing of the asset or liability are feature of a possible future transaction. Historical cost does not include these possible transaction costs because, as an entry value, historical cost reflects the costs of acquiring the asset or incurring the liability.</p>	IASB's CF BC6.32 and BC6.33
Paragraph A8 is IED.C11	<p>A8. The purchase of an asset may be followed by further expenditures to adapt the asset for the entity's own use and, until the asset is able to be used by the entity for its intended purpose, expenditures necessary to bring the asset into use will be included in the consideration identified as part of the asset's historical cost.</p>	
<del>Paragraph C12 is added to include guidance on initial recognition (see September 2020 Agenda Item 7.2.15)</del>	<p><b><u>Transaction on Market Terms</u></b></p> <p><del>When an asset is acquired or a liability is assumed in an exchange transaction, the transaction price is the price paid to acquire the asset or received to assume the liability.</del></p>	<p><del>Based on A25 of FV AG for consistency (Market terms concepts are consistent between FV and HC)</del></p>
<del>Paragraph C13 is added to include guidance on initial recognition (see September 2020 Agenda Item 7.2.15)</del>	<p><del>Applying the transaction price in measuring historical cost assumes that the asset or liability is exchanged in an orderly</del></p>	<p><del>Based on A6 of FV AG for</del></p>



NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<del>Agenda Item 7.2.15)</del>	<del>transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.</del>	<del>consistency (Market terms concepts are consistent between FV and HC)</del>
	<del>Transaction on Non-Market Terms</del>	
<del>Paragraph C14 is added to include guidance on initial recognition (see Agenda Item 7.2.15)</del>	<del>When an asset is acquired or created, or a liability is incurred or taken on, as a result of an event that is not a transaction on market terms, it may not be possible to observe a transaction price, or the transaction price may not provide relevant information about the asset or liability. In some such cases, a current value measurement basis is used as a deemed cost on initial recognition to measure the value of the asset or liability. Current value measurement bases include fair value, cost of settlement, value in use and current cost.</del>	<del>IASB's CF 6.6</del>
<del>Paragraph C15 is added to include guidance on initial recognition (see Agenda Item 7.2.15)</del>	<del>Deemed cost is then used as a starting point for subsequent measurement at historical cost. Any difference between deemed cost and any consideration given or received would be recognised recognized as income or expenses at initial recognition, unless otherwise required in the relevant IPSAS.</del>	<del>IASB's CF 6.6 and 6.81</del>
<del>Paragraph C16 is added to include guidance on initial recognition (see Agenda Item 7.2.15)</del>	<del>A9. Assets may be acquired, or liabilities may be incurred, as a result of an event that is not a transaction on market terms when:</del>  <del>(a) The transaction price may be affected by relationships between the parties, or by financial distress or other duress of one of the parties;</del>  <del>(b) An asset may be granted to the entity free of charge by a government or donated to the entity by another party;</del>  <del>(c) A liability may be imposed by legislation or regulation; or</del>  <del>A liability to pay compensation or a penalty may arise from an act of wrongdoing.</del>	<del>IASB's CF 6.80</del>
<del>Paragraph C17 is added to include guidance on initial recognition (see Agenda Item 7.2.15)</del>	<del>When assets are acquired, or liabilities incurred, as a result of an event that is not a transaction on market terms, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognise recognize other assets, other liabilities, contributions from holders of equity claims or distributions to holders of equity claims to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position and any related effect on the entity's financial performance.</del>	<del>IASB's CF 6.82</del>
	Deferred Payments	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph A9 is IED.20	<p><del>A10-A9</del> 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.</p>	IPSASB's CF 7.72
Paragraph IED.C9 has been deleted. It is specific application of the general principle of considerations in initial measurement in paragraph 11.		
Paragraph IED.C10 has been deleted as indicating the process to acquire an asset maybe complex or simple is not a principle.		
Paragraph IED.C11 has been deleted. It is specific application of the general principle of considerations in initial measurement in paragraph 11.		
Paragraph IED.C12 has been deleted. It is specific application of the general principle that transaction costs are included in HC in A7. Paragraph is back in IPSAS 16.28.		
Paragraph IED.C13 has been deleted. It is specific application of the general principle of considerations in initial measurement in paragraph 11.		
Paragraph IED.C14 has been deleted. It is specific application of the general principle that transaction costs are included in HC in 11.		
Paragraph IED.C15 to IED.C19 are deleted. It is specific application of the general principle of what is included in cost in 11. Paragraph is back in IPSAS 17.30 and 17.31.		

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<p>Paragraph is back in IPSAS 12.25 and 17.36.</p> <p>Paragraph is back in IPSAS 31.37.</p>		
	<b>Subsequent Measurement</b>	
<p>Paragraph A15 is added to include guidance on subsequent measurement (see September 2020 Agenda Item 7.2.15)</p>	<p><del>A11-A10.</del> After initial measurement, the historical cost of an asset or liability is updated to reflect current events. The initial measurement, determined in accordance with paragraphs 11<del>C9</del>-17<del>C47</del>, serves as the starting point for these updates. As a result, a historical cost measurement continues to provide information derived from the transaction price.</p>	-
<p>Paragraph A16 is added to include guidance on subsequent measurement (see September 2020 Agenda Item 7.2.15)</p>	<p><del>A12-A11.</del> The historical cost of an asset is updated over time to depict the occurrence of current events. If applicable current events may include:</p> <ul style="list-style-type: none"> <li>(a) The consumption of part or all of the economic resource that constitutes the asset (depreciation or amortization);</li> <li>(b) Payments received that extinguish part or all of the asset;</li> <li>(c) The effect of events that cause part or all of the historical cost of the asset to be no longer recoverable (impairment); and</li> <li>(d) Accrual of interest to reflect any financing component of the asset.</li> </ul> <p>Current value measurements may also be updated over time to depict items such as depreciation. However, current value measures use information updated to reflect the conditions at the measurement date, while historical cost updates the initial measurement for current events. Assets measured under a current value model may increase or decrease in value, while assets measured using historical cost will only decrease in value.</p>	IASB's CF 6.7
<p>Paragraph A17 is added to include guidance on subsequent measurement (see September 2020 Agenda Item 7.2.15)</p>	<p><del>A13-A12.</del> The historical cost of a liability is updated over time to depict the occurrence of current events. If applicable current events may include:</p> <ul style="list-style-type: none"> <li>(a) Fulfilment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods;</li> <li>(b) The effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer sufficient to depict the obligation to fulfil the liability; and</li> <li>(c) Accrual of interest to reflect any financing component of the liability.</li> </ul>	IASB's CF 6.8

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph A18 is IED.C20	<p><b>Amortized Cost</b></p> <p><del>A14.</del><del>A13.</del> The historical cost measurement basis is applied to financial instruments by measuring the instruments at amortized cost. Amortized cost reflects estimates of future cash flows, discounted at a rate determined at initial recognition. The amortized cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset or payments.</p>	IASB's CF 6.9
Paragraph A19 was added to more accurately reflect IPSAS 41 principle of amortized cost (see September 2020 Agenda item 7.2.26)	<p><del>A15.</del><del>A14.</del> Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization, and, for financial assets, adjusted for any loss allowance. Amortization is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.</p>	IPSAS 41.9
Paragraph A20 is IED.C21. Updated to more accurately reflect IPSAS 41 principle (see September 2020 Agenda item 7.2.26)	<p><del>A16.</del><del>A15.</del> For variable rate instruments, where the asset or liability bears interest at a variable rate, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognized initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.</p>	IPSAS 41.AG160

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<b>Appendix B: Current <del>Cost</del> Service Value – aApplication gGuidance</b> <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
	<b>Measurement</b>	
Paragraph B1 is added to provide guidance on new measurement basis – current cost (See September 2020 Agenda Item 7.2.16)	<p>B1. The objective of a current cost measurement is to estimate the cost of an equivalent asset at the measurement date under current market conditions. A current cost measurement requires an entity to determine all the following:</p> <ul style="list-style-type: none"> <li>(a) The particular asset that is the subject of the measurement (consistently with its unit of account).</li> <li>(b) The most economic manner to replace the service potential of the asset.</li> <li>(c) The measurement technique(s) appropriate for estimating the current cost, considering the availability of data with which to develop inputs that represent the assumptions that are specific to the entity.</li> </ul>	<p>Based on C1 of FV AG for consistency (CC is entity specific / FV is from market participants perspective )</p> <p>Includes aspects of D1 of deleted RC AG.</p>
	<b>The Asset</b>	
Paragraph <a href="#">proposed in September 2020 Agenda Item 7.2.16</a> <del>Error! Reference source not found.</del> is generic guidance across all AGs. Moved to core text paragraph 7.	<p><del>B2. A current cost measurement is for a particular asset. Therefore, when measuring current cost an entity shall take into account the characteristics of the asset at the measurement date. Such characteristics include, for example, the following:</del></p> <ul style="list-style-type: none"> <li><del>(a) The condition and location of the asset; and</del></li> <li><del>(b)(a) Restrictions, if any, on the sale or use of the asset.</del></li> </ul>	<p><del>Based on C2 of FV AG for consistency</del></p> <p><del>Includes aspects of D2 of deleted RC AG.</del></p>
Paragraph B2 is generic guidance across all AGs. Moved to core text paragraph 8.	<p><del>B3.B2. The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the entity.</del></p>	<p><del>Based on C3 of FV AG for consistency</del></p>
	<b>The Condition of the Asset</b>	
Paragraph B3 is new (See September 2020 Agenda Item 7.2.16)	<p><del>B4.B3.</del> The current cost should reflect the cost of replacing the service potential of the asset at the measurement date. Thus, the current cost takes into account physical obsolescence, functional obsolescence, and economic obsolescence, which are also used to assist in determining the useful economic life of the asset.</p>	<p>Based on D6 of deleted RC AG</p>
Paragraph B4 is new (See September 2020 Agenda Item 7.2.16)	<p><del>B5.B4.</del> The cost approach estimates the current cost by calculating the current replacement cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset while using the latest technology available—and then making deductions (the ‘depreciation’ of depreciated replacement cost) for the following forms of obsolescence and optimization:</p>	<p>Based on D30-D34 of deleted RC AG</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>(a) Physical Obsolescence. Physical obsolescence relates to any loss of service capacity due to the physical deterioration of the asset or its components resulting from its age and use. In assessing physical obsolescence, an entity should also consider any probable future routine, regular maintenance, as such maintenance may provide insight into the asset or its components' useful life and their rate of deterioration.</p> <p>(b) Functional Obsolescence. Functional obsolescence relates to any loss of service capacity resulting from inefficiencies in the asset that is being valued compared to its modern equivalent – is the asset suitable for its current function? Functional obsolescence might occur because of advances or changes in the design and/or specification of the asset, or because of technological advances. For example, advances in health care technology might mean that the asset in use is outdated, or technological advances in military materiel could mean that hardened aircraft hangers would be replaced by different types of structures. Such advances will need to be incorporated into the assessment of functional obsolescence.</p> <p>(c) Economic Obsolescence. Economic obsolescence relates to any loss of utility caused by economic or other factors outside the control of the entity. The loss of service capacity might be temporary or permanent. For example, a school might have been built in a residential area and designed to take 500 pupils but demographic changes have resulted in the need for only 300 school places. The determination of replacement cost will need to reflect this reduction in required service capacity.</p> <p>(d) Reproduction Cost. An entity should consider very carefully whether or not to use a reproduction cost (or restoration cost) as a technique to determine current cost. Such considerations should include whether there is a statutory or other requirement to replace an asset with what is essentially a replica and whether an exact reproduction is possible; if not, then a technique that assesses the replacement of a modern equivalent asset is likely to be more appropriate for financial reporting purposes. The guidance in later paragraphs assumes that the replacement cost is that of a modern equivalent asset.</p>	
Paragraph B5 is new (See Agenda Item 7.2.16)	<p><del>B6</del>-B5. The cost of a modern equivalent asset will reflect the cost that would be incurred if the works were commissioned on the measurement date. However, there are factors that may result in the cost of a notional replacement being different from that</p>	Based on D36-D42 of deleted RC AG

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>of creating the actual asset:</p> <ol style="list-style-type: none"> <li>a. <i>Site preparation</i> – Work that may have been undertaken to prepare the actual site for occupation might not need to be carried out on an assumed equivalent site. An entity might therefore assume that the site being valued is level and serviced and ready for development.</li> <li>b. <i>Phasing of work</i> – A large site may have been developed in phases. The cost of a modern equivalent asset would normally be based on a single phase development, and this should be measured at the building cost at the measurement date. To reflect the assumption that a public entity cannot identify borrowing costs (the cost of capital) that relate to the construction of a specific asset, an entity should assume that the construction has happened ‘instantly’. As a consequence, it follows that there will be no phasing of payments, and there will be no reflection of the cost of capital in the valuation.</li> <li>c. <i>Optimal working conditions</i> – In situations where there is no locational requirement for the asset (see paragraph B7), abnormal working conditions at the actual site are ignored if an alternative site is being valued.</li> <li>d. <i>Additional costs arising from extending an existing property</i> – These costs should be ignored, since the norm is that the valuation will be of a modern equivalent asset.</li> <li>e. <i>Contract variations</i> – Additional construction costs because of design or specification changes should be ignored. The modern equivalent asset being valued will have the same service potential as the existing asset.</li> <li>f. <i>Planning changes</i> – Entities should consider whether planning consent would need to be obtained were the modern equivalent asset to be constructed on the actual site.</li> </ol>	
<p>Paragraph B6 is new (See September 2020 Agenda Item 7.2.16)</p> <p>Paragraph B6 was updated based on comments received on RC. The example did not clarify the principle (see September 2020 Agenda Item 7.2.25)</p>	<p><b>Restrictions on the Sale or Use of the Non-Financial Asset</b></p> <p><b>B7-B6.</b> The entity should also consider any factors that might affect the cost of replacing the service potential of the existing asset. The existing use of the asset will be considered in the light of environmental issues such as the present and future characteristics of the location in terms of, for example, forecast demographic changes; local planning policies; national planning policies; existing restrictions on the use of the land and/or buildings; any restrictions on the sale or use of the land and/or buildings.</p>	<p>Based on D22 of deleted RC AG</p>
	The Location of the Asset	



NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph B7 is new (See September 2020 Agenda Item 7.2.16)	<del>B8-B7.</del> If there is no locational requirement for the asset, the asset's current cost may assume that the notional replacement will be situated on an alternative site which can provide the same service potential in a more cost effective way. However, the location of an asset may impact its current cost in situations where a social policy decision has been made requiring the asset to be located in a specific location.	Based on D4 of deleted RC AG
Paragraph B8 is new (See September 2020 Agenda Item 7.2.16)	<del>B9-B8.</del> For example, schools and hospitals will ideally be located within the communities they serve; and local authority offices will be easily accessible to all citizens. The land on which these schools, hospitals or offices are built might be in expensive inner-city sites or in town and city centers. Where a social policy decision has been made requiring the asset be located in a specific location, the current cost of the land is based on the current value of the existing site, rather than on cheaper land located further away from the communities they serve.	Based on D5 of deleted RC AG
	<b>Unit of Measurement</b>	
Paragraph <del>proposed in September 2020 Agenda Item 7.2.16</del> is generic guidance across all AGs. Moved to core text paragraph 9.	<del>B10.</del> The asset measured at current cost might be either of the following:  (a) <del>A stand-alone asset (e.g., an item of property, plant, and equipment); or</del>  (b)(a) <del>A group of assets or a group of assets and liabilities (e.g., a cash-generating unit or an operation).</del>	Based on C4 of FV AG for consistency
Paragraph <del>proposed in September 2020 Agenda Item 7.2.16</del> is generic guidance across all AGs. Moved to core text paragraph 10.	<del>B11-B9.</del> Whether the asset is a stand-alone asset, a group of assets or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset shall be determined in accordance with the IPSAS that requires or permits the current cost measurement, except as provided in this Application Guidance.	Based on C5 of FV AG for consistency
	<b>The Most Economic Manner to Replace the Service Potential of the Asset</b>	
Paragraph B10 is new (See September 2020 Agenda Item 7.2.16)	<del>B12-B10.</del> A current cost measure assumes the service potential of the asset is replaced in the least costly manner.	Based on D23 of deleted RC AG
Paragraph B11 is new (See September 2020 Agenda Item 7.2.16)	<del>B13-B11.</del> An entity need not undertake an exhaustive search of all acquisition methods to identify the least costly manner of replacing an asset's service potential, but it shall consider all information that is reasonably available. In the absence of evidence to the contrary, because entities usually acquire their assets by the most economic means available, current cost reflects the process that an entity generally follows.	Based on D26 of deleted RC AG



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Paragraph B12 is new (See September 2020 Agenda Item 7.2.16)	<del>B14-B12.</del> Current cost reflects the replacement of service potential in the ordinary course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event.	Based on D26 of deleted RC AG
	Entity-Specific Value	
Paragraph B13 is new (See September 2020 Agenda Item 7.2.16)	<del>B15-B13.</del> An entity shall measure the current cost of an asset using the assumptions from the entity's perspective, assuming that entity acts in accordance with its public sector objective. These assumptions include:  a. The service potential of the asset; and  b. The intended use of the asset.	Based on C9 of FV AG for consistency  Based on D21 of deleted RC AG
Paragraph B14 is new (See September 2020 Agenda Item 7.2.16)	<del>B16-B14.</del> As an asset's current cost represents an entity-specific entry price to replace the service potential of the asset, transaction costs incurred in acquiring, or that would be incurred in replacing, the asset are included in its determination.	Based on D27 of deleted RC AG
	The Service Potential of the Asset	
Paragraph B15 is new (See September 2020 Agenda Item 7.2.16)	<del>B17-B15.</del> The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service potential to deal with contingencies. Therefore, the current cost of an asset reflects expected changes in required service potential.	Based on D11 of deleted RC AG
Paragraph B16 is new (See September 2020 Agenda Item 7.2.16)	<del>B18-B16.</del> For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 100 pupils would be adequate for the current and reasonably foreseeable requirements, the current cost of the asset is that of a school for 100 pupils.	Based on D12 of deleted RC AG
	The Intended Use of the Asset	
Paragraph B17 is new (See September 2020 Agenda Item 7.2.16)	<del>B19-B17.</del> In carrying out an assessment of the current cost of land and built property, it is the use to which the asset has been put that will be the basis of the calculation of the current cost. For example, the current cost of an aircraft hangar that is being used as a storage warehouse will be that of a warehouse. Another example might be where city center land has been designated by the local authority as parkland.	Based on D14 of deleted RC AG
	Current Cost at Initial Recognition	
Paragraph B18 is new (See September 2020 Agenda Item 7.2.16)	<del>B20-B18.</del> When an asset is acquired in an exchange transaction for that asset, the transaction price is the price paid to acquire the asset (an entry price). In many cases the transaction price will equal the current cost.	Based on C21 of FV AG for consistency
Paragraph B19 <a href="#">Error!</a>	<del>B21-B19.</del> When determining whether current cost at initial	Based on

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
<a href="#">Reference source not found.</a> is new (See September 2020 Agenda Item 7.2.16)	<p>recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset. For example, the transaction price might not represent the current cost of an asset at initial recognition if any of the following conditions exist:</p> <ol style="list-style-type: none"> <li>The transaction is between related parties.</li> <li>The transaction takes place under duress or the seller is forced to accept the price in the transaction.</li> <li>The unit of account represented by the transaction price is different from the unit of account for the asset measured at fair value.</li> </ol>	C25 of FV AG for consistency
	<b>Measurement Techniques</b>	
Paragraph B20 is new (See September 2020 Agenda Item 7.2.16)	<del>B22-B20.</del> In some cases, current cost cannot be determined directly by observing prices in an active market and must be determined indirectly by other means. For example, if prices are available only for new assets, the current cost of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.	Based on IASB Conceptual Framework 6.22
Paragraph B21 is new (See September 2020 Agenda Item 7.2.16)	<del>B23-B21.</del> An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure current cost, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.	Based on C27 of FV AG for consistency  Based on D24 of deleted RC AG
Paragraph B22 is new (See September 2020 Agenda Item 7.2.16)	<del>B24-B22.</del> The objective of using a measurement technique is to estimate the cost of an equivalent asset at the measurement date under current market conditions. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs B24–B31. An entity shall use measurement techniques consistent with one or more of those approaches to measure current cost.	Based on C28 of FV AG for consistency
Paragraph B23 is new (See September 2020 Agenda Item 7.2.16)	<del>B25-B23.</del> If multiple measurement techniques are used to measure current cost, the results shall be evaluated considering the reasonableness of the range of values indicated by those results. A current cost measurement is the point within that range that is most representative of current cost in the circumstances.	Based on C29 of FV AG for consistency
	<b>Market Approach</b>	
Paragraph B24 is new (See September 2020 Agenda Item 7.2.16)	<del>B26-B24.</del> Applying the market approach to measure the current cost of an asset or consideration that would be	Based on C30 of FV AG for

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	received requires the existing of market transactions involving identical or comparable assets or liabilities.	consistency
Paragraph B25 is new (See September 2020 Agenda Item 7.2.16)	<del>B27-B25.</del> In many cases, the current cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. The current cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period.	Based on D29 of deleted RC AG
Paragraph B26 is new (See September 2020 Agenda Item 7.2.16)	<del>B28-B26.</del> Identical or similar assets include the same characteristics as the asset being measured. When measuring the current cost of an asset using the market approach and asset with an identical or similar remaining useful live, service potential, etc. must be identified. This is often the case when a similar asset was recently constructed to the asset being valued.	-
	<i>Cost Approach</i>	
Paragraph B27 is new (See September 2020 Agenda Item 7.2.16)	<del>B29-B27.</del> There are several examples in the public sector of assets whose specifications are such that there are few (if any) similar assets whose current cost can be assessed in the advantageous market.	Based on D15 of deleted RC AG
Paragraph B28 is new (See September 2020 Agenda Item 7.2.16)	<del>B30-B28.</del> Applying the cost approach to estimate current cost shall take into account the attributes of the current cost measurement basis.	-
	The Condition of the Asset	
Paragraph B29 is new (See September 2020 Agenda Item 7.2.16)	<del>B34-B29.</del> The current cost of a modern equivalent asset is adjusted by making deductions for physical obsolescence, functional obsolescence, and economic obsolescence (see paragraphs <a href="#">B4</a> ), which are also used to assist in determining the useful economic life of the asset.	Based on D6 of deleted RC AG
	<i>Income Approach</i>	
Paragraph B30 is new (See September 2020 Agenda Item 7.2.16)	<del>B32-B30.</del> Applying the income approach to estimate current cost shall take into account the attributes of the fair value measurement basis. This includes: <ul style="list-style-type: none"> <li>a. Estimates of future cash flows.</li> <li>b. Possible variations in the estimated amount or timing of future cash flows for the asset being measured, caused by the uncertainty inherent in the cash flows.</li> <li>c. The time value of money.</li> <li>d. The price for bearing the uncertainty inherent in the cash</li> </ul>	Based on the IASB Conceptual Framework

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>flows (a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset— that has uncertain cash flows than for an asset whose cash flows are certain.</p> <p>Other factors, for example, liquidity, if market participants would take those factors into account in the circumstances.</p>	
<p><i>Paragraph B31 is new (See September 2020 Agenda Item 7.2.16)</i></p>	<p><del>B33</del>.B31. Paragraphs IG1–IG18 describe the use of present value techniques to measure current cost. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure current to the techniques discussed. The present value technique used to measure current cost will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.</p>	<p><i>Based on C41 of FV AG for consistency</i></p>

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	<b>Appendix C: Fair Value – Application Guidance</b> <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
	<b>Measurement</b>	
Paragraph C1 is IED.A1	<p>C1. The objective of a fair value measurement is 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. A fair value measurement requires an entity to determine all the following:</p> <ul style="list-style-type: none"> <li>(a) The particular asset or liability that is the subject of the measurement (consistently with its unit of account).</li> <li>(b) For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).</li> <li>(c) The principal (or most advantageous) market for the asset or liability.</li> <li>(d) The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.</li> </ul>	IFRS 13.B2
Paragraph is generic guidance across all AGs. Moved to core text paragraph 7.	<p><del>The Asset or Liability</del></p> <p><del>C2. A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:</del></p> <ul style="list-style-type: none"> <li><del>a. The condition and location of the asset; and</del></li> <li><del>Restrictions, if any, on the sale or use of the asset.</del></li> </ul>	<del>IFRS 13.11</del>
Paragraph is generic guidance across all AGs. Moved to core text paragraph 8.	<p><del>The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants.</del></p>	<del>IFRS 13.12</del>
Paragraph is generic guidance across all AGs. Moved to core text paragraph 9.	<p><del>C3. The asset or liability measured at fair value might be either of the following:</del></p> <ul style="list-style-type: none"> <li><del>a. A stand-alone asset or liability (e.g., a financial instrument or a non-financial asset); or</del></li> <li><del>A group of assets, a group of liabilities or a group of assets and liabilities (e.g., a cash-generating unit or an operation).</del></li> </ul>	<del>IFRS 13.13</del>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph is generic guidance across all AGs. Moved to core text paragraph 10.	<del>Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IPSAS that requires or permits the fair value measurement, except as provided in this Application Guidance.</del>	<del>IFRS 13.14</del>
	<b>The Transaction</b>	
Paragraph C2 is IED.A6	<del>C4-C2.</del> A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.	IFRS 13.15
Paragraph C3 is IED.A7	<del>C5-C3.</del> A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: a. In the principal market for the asset or liability; or b. In the absence of a principal market, in the most advantageous market for the asset or liability.	IFRS 13.16
Paragraph C4 is IED.A8	<del>C6-C4.</del> An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.	IFRS 13.17
Paragraph C5 is IED.A9	<del>C7-C5.</del> If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another measurement technique), even if the price in a different market is potentially more advantageous at the measurement date.	IFRS 13.18
Paragraph C6 is IED.A10	<del>C8-C6.</del> The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and operations within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and operations within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.	IFRS 13.19

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Paragraph C7 is IED.A11	<del>C9-C7.</del> Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.	IFRS 13.20
Paragraph C8 is IED.A12	<del>C10-C8.</del> Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.	IFRS 13.21
	<b>Market Participants</b>	
Paragraph C9 is IED.A13	<del>C14-C9.</del> An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.	IFRS 13.22
Paragraph C10 is IED.A14	<del>C12-C10.</del> In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following: <ul style="list-style-type: none"> <li>a. The asset or liability;</li> <li>b. The principal (or most advantageous) market for the asset or liability; and</li> <li>c. Market participants with whom the entity would enter into a transaction in that market.</li> </ul>	IFRS 13.23
	<b>The Price</b>	
Paragraph C11 is IED.A15	<del>C13-C11.</del> Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another measurement technique.	IFRS 13.24
Paragraph C12 is IED.A16	<del>C14-C12.</del> The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for <i>transaction costs</i> . Transaction costs shall be accounted for in accordance with other IPSASs. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.	IFRS 13.25



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Paragraph C13 is IED.A17	<del>C15</del> .C13. Transaction costs do not include <i>transport costs</i> . If location is a characteristic of the asset (as might be the case, e.g., for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.	IFRS 13.26
	<b>Application to non-financial assets</b>	
	Highest and best use for non-financial assets	
Paragraph C14 is IED.A18	<del>C16</del> .C14. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its <i>highest and best use</i> or by selling it to another market participant that would use the asset in its highest and best use.	IFRS 13.27
Paragraph C15 is IED.A19	<del>C17</del> .C15. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows: <ul style="list-style-type: none"> <li>a. A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g., the location or size of a property).</li> <li>b. A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g., the zoning regulations applicable to a property).</li> <li>c. A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.</li> </ul>	IFRS 13.28
Paragraph C16 is IED.A20	<del>C18</del> .C16. Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.	IFRS 13.29 and IFRS 13.30
Paragraph C17 is IED.A21	<del>C19</del> .C17. To protect the public interest, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset, such as a drug patent, that the	-



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	<p>entity plans to use to manufacture vaccines for its citizens. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.</p>	
	Valuation premise for non-financial assets	
<p>Paragraph C18 is IED.A22</p>	<p><del>C20</del>-C18. The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:</p> <p>(a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation).</p> <p>(i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (i.e., its complementary assets and the associated liabilities) would be available to market participants.</p> <p>(ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.</p> <p>(iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.</p> <p>(b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.</p>	<p>IFRS 13.31</p>
<p>Paragraph C19 is IED.A23</p>	<p><del>C24</del>-C19. The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of</p>	<p>IFRS 13.32</p>

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	<p>account specified in other IPSAS (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.</p>	
<p>Paragraph C20 is IED.A24</p>	<p><u>C22.C20.</u> When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (e.g., an operation), the effect of the valuation premise depends on the circumstances. For example:</p> <p>(a) The fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is an operation that market participants would continue to operate. In that case, the transaction would involve valuing the operation in its entirety. The use of the assets as a group in an ongoing operation would generate synergies that would be available to market participants (i.e., market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).</p> <p>(b) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).</p> <p>(c) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialized machinery necessary to convert the inventory into finished goods.</p>	<p>IFRS 13.B3</p>

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	<p>(d) An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the measurement technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that measurement technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.</p> <p>(e) In more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (i.e., an asset group) is allocated to its component assets (such as land and improvements).</p>	
	<b>Fair Value at Initial Recognition</b>	
Paragraph C21 is IED.A25	<del>C23-C21.</del> When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an <i>entry price</i> ). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an <i>exit price</i> ). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.	IFRS 13.57
Paragraph C22 is IED.A26	<del>C24-C22.</del> In many cases the transaction price will equal the fair value (e.g., that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).	IFRS 13.58
Paragraph C23 is IED.A27	<del>C25-C23.</del> When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph C25 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.	IFRS 13.59
Paragraph C24 is IED.A28	<del>C26-C24.</del> If another IPSAS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognize the resulting gain or loss in surplus or deficit unless that IPSAS specifies otherwise.	IFRS 13.60
Paragraph C25 is IED.A29	<del>C27-C25.</del> When determining whether fair value at initial recognition equals the transaction price, an entity shall take	IFRS 13.B4

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<p>Paragraph A29e has been added to include public sector specific circumstances (see September 2020 Agenda item 7.2.27)</p>	<p>into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:</p> <ol style="list-style-type: none"> <li>The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.</li> <li>The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.</li> <li>The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g., in a public sector combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IPSAS, or the transaction price includes transaction costs.</li> <li>The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.</li> <li>The transaction takes place to achieve a specific social policy objective (e.g., issuing concessionary loans or financial guarantees where no, or a nominal fee, is charged).</li> </ol>	
	<p><b>Valuation Measurement Techniques</b></p>	
<p>Paragraph C26 is added to emphasize selection of valuation technique.</p>	<p><del>C28</del>-C26. In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques.</p>	<p>Based on IASB Conceptual Framework 6.14</p>
<p>Paragraph C27 is IED.A30</p>	<p><del>C29</del>-C27. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.</p>	<p>IFRS 13.61</p>
<p>Paragraph C28 is IED.A31</p>	<p><del>C30</del>-C28. The objective of using a measurement technique is</p>	<p>IFRS 13.62</p>

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	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. Three widely used measurement techniques are the market approach, the cost approach and the income approach. The main aspects of those approaches are summarized in paragraphs C30–C41. An entity shall use measurement techniques consistent with one or more of those approaches to measure fair value.	
Paragraph C29 is IED.A32 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)	<del>C34-C29.</del> If multiple measurement techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.	IFRS 13.B3
Paragraph IED.A33 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A34 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A35 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)		
	<i>Market Approach</i>	
Paragraph IED.A36 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)		
Paragraph C30 is IED.A37	<del>C32-C30.</del> Measurement techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.	IFRS 13.B6
Paragraph C31 is IED.A38	<del>C33-C31.</del> Measurement techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities,	IFRS 13.B7

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	but rather relying on the securities' relationship to other benchmark quoted securities.	
	<i>Cost Approach</i>	
<i>Paragraph IED.A39 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)</i>		
<i>Paragraph C32 added to reflect application of measurement techniques to bases (see September 2020 Agenda Item 7.2.14)</i>	<del>C34</del> .C32. Applying the cost approach to estimate fair value shall take into account the attributes of the fair value measurement basis. While the cost approach reflects the amount required to replace the service of an asset, when estimating fair value, this is performed in the context of an exit value.	
	Market Participant	
<i>Paragraph C33 is IED.A40</i>	<del>C35</del> .C33. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.	IFRS 13. B9
<i>Paragraph C34 is based IED.D30 to include concept of modern equivalent asset in cost approach for fair value measurement.</i>	<del>C36</del> .C34. The cost approach estimates the fair value by calculating the current replacement cost of a modern equivalent asset—that is, a notional asset providing an equivalent service as the existing asset while using the latest technology available—and then making deductions (the 'depreciation' of depreciated replacement cost) for the following forms of obsolescence and optimization. That is because a market participant buyer would not pay more to replace the service capacity of the existing asset than the amount required to acquire its modern equivalent.	-
	Replace the Service of the Asset	
<i>Paragraph C35 added to reflect application of measurement techniques to bases</i>	<del>C37</del> .C35. From the perspective of a market participant, the service of the asset is based on the service capacity of the asset. That is because from a market participant buyer	-

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(see September 2020 Agenda Item 7.2.14)	acquires the asset for the volume of service the asset can handle while maintaining standards of quality and performance.	
Paragraph C36 added to reflect application of measurement techniques to bases (see September 2020 Agenda Item 7.2.14)	<del>C38-C36.</del> An entity only considers a service amount other than the service capacity of the asset when the service is limited by factors, or restrictions, external to the asset. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes in the communities, the demand is limited to 100 pupils, the fair value of the school is that of a school for 100 pupils. However, if a market participant is reasonable able to operate the school with 500 students, the service capacity applied in the valuation.	-
	Highest and Best Use	
Paragraph C37 added to reflect application of measurement techniques to bases (see September 2020 Agenda Item 7.2.14)	<del>C39-C37.</del> The entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants. For a public sector entity, the asset may be used to satisfy a public service objective and not used to generate economic benefits by using the asset in its highest and best use.	-
Paragraph C38 added to reflect application of measurement techniques to bases (see September 2020 Agenda Item 7.2.14)	<del>C40-C38.</del> When estimating the fair value of an asset, using the cost approach, the entity shall consider different use by market participants would maximize the value of the asset. This takes into account the use of the asset that is physically possible, legally permissible and financially feasible. For example, an entity in the process of disposing a community center considers the amount required to replace the service of an asset in the context that the market participant buyer will use the asset. If the community centre can feasibly be used as commercial space, this is taken to account when determining its highest and best use.	-
Paragraph IED.A41 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)	<b>Income Approach</b>	
Paragraph C39 added to reflect application of measurement techniques to bases (see September 2020 Agenda Item 7.2.14)	<del>C44-C39.</del> Applying the income approach to estimate fair value shall take into account the attributes of the fair value measurement basis. This includes: <ul style="list-style-type: none"> <li>a. Estimates of future cash flows.</li> <li>b. Possible variations in the estimated amount or timing of future cash flows for the asset or liability being measured, caused by the uncertainty inherent in the cash flows.</li> <li>c. The time value of money.</li> </ul>	IASB CF 6.14



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	<p>d. The price for bearing the uncertainty inherent in the cash flows (a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (and generally require more for taking on a liability) that has uncertain cash flows than for an asset (or liability) whose cash flows are certain.</p> <p>e. Other factors, for example, liquidity, if market participants would take those factors into account in the circumstances.</p>	
<p>Paragraph C40 is IED.A42</p>	<p><del>C42-C40.</del> When estimating fair value, the income approach can be applied using several methods. Those methods include, for example, the following:</p> <ul style="list-style-type: none"> <li>a. Present value techniques (see paragraph C41);</li> <li>b. Option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e., a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and</li> <li>c. The multi-period excess earnings method, which is used to measure the fair value of some intangible assets.</li> </ul>	<p>IFRS 13. B11</p>
<p>Paragraph IED.A43 is generic guidance and has moved to the core text (see September 2020 Agenda Item 7.2.14)</p>	<p><del>C43-C41.</del> Paragraphs IG1–IG18 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an expected cash flow (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.</p>	<p>IFRS 13.B1 2</p>
<p>Paragraph IED.A44 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)</p>		
<p>Paragraph IED.A45 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)</p>		
	<p><i>Risk and Uncertainty</i></p>	
<p>Paragraph IED.A46 is generic guidance and has moved to IGs (see September 2020</p>		



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Paragraph C42 is IED.A47	<p><del>C44.C42.</del> Market participants generally seek compensation (i.e., a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.</p>	IFRS 13.B1 6
Paragraph IED.A48 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A49 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A50 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A51 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A52 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A53 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A54 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A55 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A56 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A57 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A58 is generic guidance and has moved to IGs (see September 2020		

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Agenda Item 7.2.14)		
Paragraph IED.A59 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A60 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
Paragraph IED.A61 is generic guidance and has moved to IGs (see September 2020 Agenda Item 7.2.14)		
	<b>Inputs to Measurement Techniques</b>	
	<i>General Principles</i>	
Paragraph C43 is IED.A62	<del>C45-C43.</del> Measurement techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs.	IFRS 13.67
Paragraph C44 is IED.A63	<del>C46-C44.</del> Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include exchange markets, dealer markets, brokered markets and principal-to-principal markets (see paragraph C45).	IFRS 13.68
Paragraph C45 is IED.A64	<del>C47-C45.</del> Examples of markets in which inputs might be observable for some assets and liabilities (e.g., financial instruments) include the following: <ul style="list-style-type: none"> <li>(a) Exchange markets. In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the London Stock Exchange.</li> <li>(b) Dealer markets. In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (e.g., used equipment).</li> <li>(c) Brokered markets. In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other</li> </ul>	IFRS 13.B3 4

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.</p> <p>(d) Principal-to-principal markets. In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.</p>	
Paragraph C46 is IED.A65	<p><del>C48-C46.</del> An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs C1 and 0). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (e.g., a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IPSAS that requires or permits the fair value measurement (see paragraphs C1 and 0). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph C55) rather than as a characteristic of the asset or liability (e.g., a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e., a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph C54.</p>	IFRS 13.69
Paragraph C47 is IED.A66	<p><b>Fair Value Hierarchy</b></p> <p><del>C49-C47.</del> To increase consistency and comparability in fair value measurements and related disclosures, this Application Guidance establishes a fair value hierarchy that categorizes into three levels (see paragraphs C51–C78) the inputs to measurement techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs</p>	IFRS 13.72

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	(Level 3 inputs).	
Paragraph C48 is IED.A67	<p><del>C50</del>.C48. In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorized.</p>	IFRS 13.73
Paragraph C49 is IED.A68	<p><del>C51</del>.C49. The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate measurement techniques (see paragraph C27). However, the fair value hierarchy prioritizes the inputs to measurement techniques, not the measurement techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.</p>	IFRS 13.74
Paragraph C50 is IED.A69	<p><del>C52</del>.C50. If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorized within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a Level 2 input and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorized within Level 3 of the fair value hierarchy.</p>	IFRS 13.75
Paragraph C51 is IED.A70	<p><b>Level 1 Inputs</b></p> <p><del>C53</del>.C51. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.</p>	IFRS 13.76
Paragraph C52 is IED.A71	<p><del>C54</del>.C52. A quoted price in an active market provides the most faithfully representative evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph C54.</p>	IFRS 13.77

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraph C53 is IED.A72	<p><del>C55-C53.</del> A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (e.g., on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:</p> <ul style="list-style-type: none"> <li>a. The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and</li> <li>b. Whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.</li> </ul>	IFRS 13.78
Paragraph C54 is IED.A73	<p><del>C56-C54.</del> An entity shall not make an adjustment to a Level 1 input except in the following circumstances:</p> <ul style="list-style-type: none"> <li>a. When an entity holds a large number of similar (but not identical) assets or liabilities (e.g., debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (i.e., given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (e.g., matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy.</li> <li>b. When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy.</li> <li>c. When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the</li> </ul>	IFRS 13.79

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>item or the asset (see paragraph [to be developed]<sup>1</sup> of IPSAS 41). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorized within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.</p>	
<p>Paragraph C55 is IED.A74</p>	<p><del>C57.C55.</del> If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.</p>	<p>IFRS 13.80</p>
	<p><b>Level 2 Inputs</b></p>	
<p>Paragraph C56 is IED.A75</p>	<p><del>C58.C56.</del> Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.</p>	<p>IFRS 13.81</p>
<p>Paragraph C57 is IED.A76</p>	<p><del>C59.C57.</del> If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:</p> <ul style="list-style-type: none"> <li>a. Quoted prices for similar assets or liabilities in active markets.</li> <li>b. Quoted prices for identical or similar assets or liabilities in markets that are not active.</li> <li>c. inputs other than quoted prices that are observable for the asset or liability, for example: <ul style="list-style-type: none"> <li>i. Interest rates and yield curves observable at commonly quoted intervals;</li> <li>ii. Implied volatilities; and</li> <li>iii. Credit spreads.</li> </ul> </li> <li>d. Market-corroborated inputs.</li> </ul>	<p>IFRS 13.82</p>
<p>Paragraph C58 is IED.A77</p>	<p><del>C60.C58.</del> Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors</p>	<p>IFRS 13.83</p>

<sup>1</sup> Paragraph in IPSAS 41 will be developed as a consequential amendment during the Exposure Draft Phase of the project.

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>include the following:</p> <ul style="list-style-type: none"> <li>a. The condition or location of the asset;</li> <li>b. The extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph [to be developed]<sup>2</sup> of IPSAS 41; and</li> <li>c. The volume or level of activity in the markets within which the inputs are observed.</li> </ul>	
Paragraph C59 is IED.A78	<p><del>C61-C59.</del> An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.</p>	IFRS 13.84
Paragraph C60 is IED.A79	<p><del>C62-C60.</del> Paragraph C61 describes the use of Level 2 inputs for particular assets and liabilities.</p>	IFRS 13.85
Paragraph C61 is IED.A80	<p><del>C63-C61.</del> Examples of Level 2 inputs for particular assets and liabilities include the following:</p> <ul style="list-style-type: none"> <li>a. Licensing arrangement. For a licensing arrangement that is acquired in a public sector combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.</li> <li>b. Finished goods inventory at a retail outlet. For finished goods inventory that is acquired in a public sector combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (i.e., similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.</li> <li>c. Building held and used. A Level 2 input would be the</li> </ul>	IFRS 13.B3 5

<sup>2</sup> Paragraph in IPSAS 41 will be developed as a consequential amendment during the Exposure Draft Phase of the project.



NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>price per square meter for the building (a valuation multiple) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) buildings in similar locations.</p> <p>d. Cash-generating unit. A Level 2 input would be a valuation multiple (e.g., a multiple of earnings or revenue or a similar performance measure) derived from observable market data, e.g., multiples derived from prices in observed transactions involving comparable (i.e., similar) operations, taking into account operational, market, financial and non-financial factors.</p>	
Paragraph C62 is IED.A81	<p><b>Level 3 Inputs</b></p> <p><del>C64</del>.C62. Level 3 inputs are unobservable inputs for the asset or liability.</p>	IFRS 13.86
Paragraph C63 is IED.A82	<p><del>C65</del>.C63. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.</p>	IFRS 13.87
Paragraph C64 is IED.A83	<p><del>C66</del>.C64. Assumptions about risk include the risk inherent in a particular measurement technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the measurement technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (e.g., when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs C65–C75).</p>	IFRS 13.88
	<p><i>Measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased</i></p>	
Paragraph C65 is IED.A84	<p><del>C67</del>.C65. The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to</p>	IFRS 13.B3 7



NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:</p> <ol style="list-style-type: none"> <li>There are few recent transactions.</li> <li>Price quotations are not developed using current information.</li> <li>Price quotations vary substantially either over time or among market-makers (e.g., some brokered markets).</li> <li>Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.</li> <li>There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.</li> <li>There is a wide bid-ask spread or significant increase in the bid-ask spread.</li> <li>There is a significant decline in the activity of, or there is an absence of, a market for new issues (i.e., a primary market) for the asset or liability or similar assets or liabilities.</li> <li>Little information is publicly available (e.g., for transactions that take place in a principal-to-principal market).</li> </ol>	
Paragraph C66 is IED.A85	<p><del>C66</del>-C66. If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (e.g., there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in</p>	IFRS 13.B3 8

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	its entirety. Adjustments also may be necessary in other circumstances (e.g., when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).	
Paragraph C67 is IED.A86	<u>C69-C67.</u> This Application Guidance does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs C26–C29 and C30–C42 for a discussion of the use of measurement techniques when measuring fair value. Regardless of the measurement technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph C1). Otherwise, the measurement does not faithfully represent fair value. In some cases determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.	IFRS 13.B3 9
Paragraph C68 is IED.A87	<u>C70-C68.</u> If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in measurement technique or the use of multiple measurement techniques may be appropriate (e.g., the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple measurement techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.	IFRS 13.B4 0
Paragraph C69 is IED.A88	<u>C74-C69.</u> Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (i.e., not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.	IFRS 13.B4 1
Paragraph C70 is IED.A89	<u>C72-C70.</u> Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at	IFRS 13.B4 2

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>the measurement date and requires judgement. An entity's intention to hold the asset or to settle or otherwise fulfil the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.</p>	
<p>Paragraph C71 is IED.A90</p>	<p><i>Identifying Transactions that are not Orderly</i></p> <p><del>C73-C71.</del> The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (i.e., forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:</p> <ol style="list-style-type: none"> <li>a. There was not adequate 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 under current market conditions.</li> <li>b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.</li> <li>c. The seller is in or near bankruptcy or receivership (i.e., the seller is distressed).</li> <li>d. The seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced).</li> <li>e. The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.</li> </ol> <p>An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.</p>	<p>IFRS 13.B4 3</p>
<p>Paragraph C72 is IED.A91</p>	<p><del>C74-C72.</del> An entity shall consider all the following when measuring fair value or estimating market risk premiums:</p> <ol style="list-style-type: none"> <li>(a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.</li> <li>(b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend</li> </ol>	<p>IFRS 13.B4 4</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>on the facts and circumstances, such as the following:</p> <ul style="list-style-type: none"> <li>(i) The volume of the transaction.</li> <li>(ii) The comparability of the transaction to the asset or liability being measured.</li> <li>(iii) The proximity of the transaction to the measurement date.</li> </ul> <p>(c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (i.e., the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.</p> <p>An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.</p>	
	<i>Using Quoted Prices Provided by Third Parties</i>	
Paragraph C73 is IED.A92	<p><del>C75-C73.</del> This Application Guidance does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this Application Guidance.</p>	IFRS 13.B4 5
Paragraph C74 is IED.A93	<p><del>C76-C74.</del> If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a measurement technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.</p>	IFRS 13.B4 6
Paragraph C75 is IED.A94	<p><del>C77-C75.</del> Furthermore, the nature of a quote (e.g., whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that</p>	IFRS 13.B4 7

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	represent binding offers.	
Paragraph C76 is IED.A95	<p><del>C78</del>.C76. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (e.g., an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.</p>	IFRS 13.89
Paragraph C77 is IED.A96	<p><del>C79</del>.C77. Paragraph C78 describes the use of Level 3 inputs for particular assets and liabilities.</p>	IFRS 13.90
Paragraph C78 is IED.A97	<p><del>C80</del>.C78. Examples of Level 3 inputs for particular assets and liabilities include the following:</p> <ul style="list-style-type: none"> <li>a. Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.</li> <li>b. Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, i.e., the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.</li> <li>c. Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.</li> <li>d. Decommissioning liability assumed in a public sector combination. A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfil the obligation (including</li> </ul>	IFRS 13.B3 6

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	<i>Original Source</i>
	<p>market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, e.g., a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.</p> <p>e. Cash-generating unit. A Level 3 input would be a financial forecast (e.g., of cash) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.</p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<b>Appendix D: Cost of <del>Settlement</del>Fulfillment – Application guidanceGuidance</b> <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
<p>Paragraph D1 is IED.B1</p> <p>Paragraph D1(c) was deleted as it is included in (d) (see September 2020 Agenda item 7.2.28)</p>	<b>Measurement</b> <p>D1. The objective of the cost of <del>fulfillment</del>settlement measurement is to estimate the value of a liability assuming the entity will fulfill its obligation in the least costly manner. A cost of <del>fulfillment</del>settlement measurement requires an entity to determine all the following:</p> <ol style="list-style-type: none"> <li>The particular liability that is the subject of the measurement (consistently with its unit of account).</li> <li>The manner in which the liability will be settled.</li> <li>The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs when pricing the liability.</li> </ol>	CP, Measurement
<p>Paragraph 0 is generic guidance across all AGs. Moved to core text paragraph 7.</p> <p>Paragraph 0 (b) was deleted to remove the requirement to include a risk premium (see September 2020 Agenda item 7.2.3)</p>	<b>The Liability</b> <p><del>D2. A cost of settlement fulfillment value measurement is for a particular liability. Therefore, when measuring the cost of settlement fulfillment value, an entity takes into account characteristics of the particular liability relevant in determining the cost of settlement fulfillment value at the measurement date. Such characteristics include, for example, the following:</del></p> <p><del>D3. The entity's expectations about the amount and timing of the future outflow of resources.; and</del>  <del>The risk that the actual future outflow of resources may ultimately differ from those expected (i.e., a risk premium).</del></p>	CP, Measurement
<p>Paragraph 0 is generic guidance across all AGs. Moved to core text paragraph 8.</p>	<p><del>The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the specific entity.</del></p>	CP, Measurement
<p>Paragraph D1 is generic guidance across all AGs. Moved to core text paragraph 9.</p>	<p><del>D4. The liability measured at its cost of settlement fulfillment value might be either of the following:</del></p> <ol style="list-style-type: none"> <li><del>A stand-alone liability (e.g., a legal claim against the entity); or</del></li> <li><del>A group of liabilities (e.g., decommissioning liabilities associated with a particular asset).</del></li> </ol>	CP, Measurement
<p>Paragraph 0 is generic guidance across all AGs. Moved to core text paragraph 10.</p>	<p><del>Whether the liability is a stand-alone liability or a group of liabilities for recognition or disclosure purposes depends on the liability's its unit of account. The unit of account for the liability shall be determined in accordance with the IPSAS that</del></p>	

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<del>requires or permits the cost of settlement fulfillment value measurement, except as provided in this Application Guidance.</del>	
Paragraph D2 is IED.B6	<b>The Least Costly Manner</b> <b>D5-D2.</b> The cost of <del>fulfillment</del> <del>settlement</del> measurement assumes that the liability is settled by the entity in the least costly manner.	CP, Measurement
Paragraph D3 is IED.B7	<b>D6-D3.</b> The cost of <del>fulfillment</del> <del>settlement</del> represents the amount the entity is obligated to incur to settle the liability. This obligation represents the minimum amount an entity will incur assuming the entity completely satisfies its obligation. For example, an entity may have an obligation to restore a parcel of land to its original condition when a temporary road is no longer in use. Even when the entity intends to enhance the parcel of land, the costs of enhancements are beyond the cost to fulfill the minimum obligation of restoring the land to its original condition and therefore are not representative of the cost to fulfill the liability. In cases where an entity intends to fulfill the liability beyond its commitment, guidance in IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> , should be applied when accounting for amount in excess of the cost to fulfill.	CP, Measurement
Paragraph D4 is IED.B8	<b>D7-D4.</b> The entity must have the ability to access the <del>settlement</del> <del>fulfillment</del> method that results in the obligation being settled in the least costly manner at the expected <del>fulfillment</del> <del>settlement</del> date. Because different entities (and operations within those entities) with different activities may have access to a variety of <del>fulfillment</del> <del>settlement</del> methods, the least costly manner for the same liability might be different for different entities (and operations within those entities). Therefore, the least costly manner shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.	CP, Measurement
Paragraph D5 is IED.B9	<b>D8-D5.</b> An entity need not undertake an exhaustive search of all <del>fulfillment</del> <del>settlement</del> methods to identify the least costly manner of <del>fulfillment</del> <del>settlement</del> , but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the least costly manner of <del>fulfillment</del> <del>settlement</del> is presumed to be the manner in which the entity has currently selected to release itself from the obligation. For example, if an entity elects to fulfill its decommissioning liability using its own employees, it is presumed this is the least costly manner of <del>fulfillment</del> <del>settlement</del> , regardless of the entity's ability to contract the decommissioning to third parties.	CP, Measurement



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Paragraph D6 is IED.B10	<del>D9-D6.</del> Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the obligation.	IPSASB CF 7.76
Paragraph D7 is IED.B11	<del>D40-D7.</del> Where fulfillment will be made by the entity itself, the fulfillment cost does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the cost of <del>fulfillment</del> <del>settlement</del> amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources.	IPSASB CF 7.77
	<b>Entity-Specific Value</b>	
Paragraph D8 is IED.B12  Paragraph D8 was updated as public sector entities don't always act in their economic interest (see September 2020 Agenda Item 7.2.28)	<del>D44-D8.</del> The cost of <del>fulfillment</del> <del>settlement</del> is an entity specific value. An entity shall measure the cost of <del>fulfillment</del> <del>settlement</del> of a liability using the assumptions from the entity's perspective, assuming the entity acts in accordance with its own public sector objective.	CP, Measurement
Paragraph D9 is IED.B13  Paragraph D9 (d) was updated to remove the requirement to include a risk premium (see September 2020 Agenda Item 7.2.28)	<del>D42-D9.</del> In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the liability, considering factors specific to all the following:  a. The liability;  b. The entity's expectations about the amount and timing of future outflows of resources; and  c. The time value of money.	CP, Measurement
Paragraph D10 is IED.B14  Paragraph D10 was updated to remove repetition with IED.B15 and to add clarity (see September 2020 Agenda Item 7.2.28)	<del>D43-D10.</del> When estimating market based assumptions, such as the time value of money, there may be little difference between the assumptions that a market participant would apply and those and entity uses itself.	CP, Measurement
Paragraph 0 is IED.B15 Paragraph D10 was updated to remove repetition with IED.B15 and to add clarity (see September 2020 Agenda Item 7.2.28)		
	<b>The Cost that the Entity Will Incur</b>	

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Paragraph D11 is IED.B16	<del>D44.D11.</del> The cost of <del>fulfillmentsettlement</del> estimates the cost assuming the entity settles obligation.	CP, Measurement
Paragraph D12 is IED.B17  Paragraph D12 amended to create better lead into the transaction costs in paragraph D13.	<del>D45.D12.</del> A cost of <del>fulfillmentsettlement</del> measurement, both at initial and subsequent measurement, should only incorporate the future outflows of resources the entity expects to incur to satisfy the obligation. Those future outflows of resources include the amounts:  a. To be transferred to the liability counterparty; and  b. The entity expects to be obliged to transfer to other parties to settle the liability.	CP, Measurement
Paragraph D13 is IED.B18	<del>D46.D13.</del> The price used to measure the cost of fulfilling the liability shall not be adjusted for <i>transaction costs</i> incurred to enter into the transaction. Entry-based transaction costs have no impact on the future outflows of resources the entity expects to incur. In contrast, transaction costs that are expected to be incurred, or exit-based, in settling the liability are a future outflow of resources that is relevant in measuring the cost to fulfill the liability and are included in measuring the cost of <del>fulfillmentsettlement</del> .	CP, Measurement
Paragraph D14 is IED.B19	<del>D47.D14.</del> Where the cost of <del>fulfillmentsettlement</del> depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of <del>fulfillmentsettlement</del> , which aims to reflect all those possible outcomes in an unbiased manner.	IPSASB CF 7.75
Paragraph D15 is IED.B20	<del>D48.D15.</del> Where <del>fulfillmentsettlement</del> of the obligation will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the measurement date using a measurement technique. As a practical expedient, an entity need not discount the value of the future outflow of resources if the entity expects the obligation to be settled within one year.	IPSASB CF 7.78
	<b>Settling its Obligations</b>	
Paragraph D16 is IED.B21	<del>D49.D16.</del> The cost of <del>fulfillmentsettlement</del> is the cost that the entity expects to incur to settle its obligation in the normal course of operations.	CP, Measurement
Paragraph D17 is IED.B22  Paragraph D17 was updated as counterparties are often unknown on measurement date (See September 2020 Agenda Item 7.2.28)	<del>D20.D17.</del> In estimating the cost to settle its obligation in the normal course of operations, the entity assumes the obligation will be fulfilled under the existing terms of the arrangement and that the liability will not be transferred to a third party.	CP, Measurement
Paragraph D18 is IED.B23	<del>D21.D18.</del> In estimating the cost of <del>fulfillmentsettlement</del> the	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	entity takes into account all readily available information at the measurement date under current market conditions in estimating the outflow of resources required to settle the liability at the expected <del>fulfillment</del> settlement date.	nt
Paragraph D19 is IED.B24	<del>D22-D19.</del> The cost of <del>fulfillment</del> settlement shall not include the non-performance risk of the entity to settle its obligation. A cost of <del>fulfillment</del> settlement measurement is a measure of the value of a liability assuming the entity will fulfil its obligations. As non-performance risk takes into account the effect on the value of a liability of the entity potentially not meeting its obligations, it is inconsistent to include in the measure of a liability the possibility that it may not meet its obligations when the cost of <del>fulfillment</del> settlement measurement assumes the liability will be fulfilled in the normal course of operations.	CP, Measurement
	<b>Valuation Measurement Techniques</b>	
	<del>D23-D20.</del> The cost of <del>fulfillment</del> settlement cannot be observed directly in an active market. It is determined using measurement techniques.	Based on C26 of fair value AG for consistency
Paragraph D21 is IED.B25	<del>D24-D21.</del> An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data is available to measure the cost of <del>fulfillment</del> settlement. The cost of <del>fulfillment</del> settlement reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those and entity uses itself.	CP, Measurement
Paragraph D22 is IED.B26	<del>D25-D22.</del> The objective of using a measurement technique is to estimate the cost that the entity will incur in fulfilling the obligations represented by the liability at the measurement date under current market conditions. The most commonly used valuation approach when measuring the cost of <del>fulfillment</del> settlement— is an income approach. The main aspects of that approach as it relates to the cost of <del>fulfillment</del> settlement are summarized in paragraphs D23–D48.	CP, Measurement
	<b>Income Approach</b>	
Paragraph D23 is added to reflect the application of measurement techniques	<del>D26-D23.</del> Applying the income approach to estimate the cost of <del>fulfillment</del> settlement shall take into account the attributes of the cost of <del>fulfillment</del> settlement measurement basis. This includes: <ul style="list-style-type: none"> <li>a. Estimates of future cash flows.</li> <li>b. Possible variations in the estimated amount or timing of future cash flows for the asset or liability being measured, caused by the uncertainty inherent in the</li> </ul>	Based on C39 of fair value AG for consistency

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>cash flows.</p> <p>c. The time value of money.</p> <p>d. Other factors that impact the value of the liability.</p>	
<i>Paragraph 0 is IED.B27 is generic guidance and has moved to the core text based on September 2020 Agenda Item 7.2.14.</i>		
<i>Paragraph IED.B28 is deleted as it is redundant with D24.</i>		
<i>Paragraph D24 is IED.B29</i>	<p><u>D27.D24.</u> Paragraphs IG1–IG18 describe the use of present value techniques to measure the cost of <del>fulfillmentsettlement</del>. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the cost of <del>fulfillmentsettlement</del> to the techniques discussed. The present value technique used to measure the cost of <del>fulfillmentsettlement</del> will depend on facts and circumstances specific to the liability being measured and the availability of sufficient data.</p>	CP, Measurement
<i>Paragraph IED.B30 is generic guidance and has moved to a separate based on September 2020 Agenda Item 7.2.14.</i>		
<i>Paragraph IED.B31 is generic guidance and has moved to a separate based on September 2020 Agenda Item 7.2.14.</i>		
<i>Paragraph IED.B32 is generic guidance and has moved to a separate based on September 2020 Agenda Item 7.2.14.</i>		
<i>Paragraph IED.B33 was removed to remove the requirement to include a risk premium (see September 2020 agenda item 7.2.3)</i>		
<i>Paragraph IED.B34 was removed to remove the requirement to include a risk premium (see September 2020 agenda item 7.2.3)</i>		
<i>Paragraph IED.B35 was removed to remove the requirement to include a risk premium (see September 2020 agenda item 7.2.3)</i>		
<i>Paragraph IED.B36 was removed to</i>		

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remove the requirement to include a risk premium (see September 2020 agenda item 7.2.3)		
Paragraph IED.B37 was removed to remove the requirement to include a risk premium (see September 2020 agenda item 7.2.3)		
	Future Outflows of Resources	
Paragraph D25 is IED.B38	<p><del>D28</del>.D25. The estimates of outflows of resources used to determine the cost of <del>fulfillment</del> <del>settlement</del> shall include all inflows of resources and outflows of resources that relate directly to the fulfillment of the liability. Those estimates shall:</p> <ol style="list-style-type: none"> <li>Be explicit (i.e., the entity shall estimate those outflows of resources separately from the estimates of discount rates that adjust those future outflows of resources for the time value of money and the risk adjustment that adjusts those future outflows of resources for the effects of uncertainty about the amount and timing of those outflows of resources);</li> <li>Reflect the perspective of the entity, provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables (see paragraphs D30–D34);</li> <li>Incorporate, in an unbiased way, all of the available information about the amount, timing and uncertainty of all of the inflows of resources and outflows of resources that are expected to arise as the entity fulfils the liability (see paragraph D35); and</li> <li>Be current (i.e., the estimates shall reflect all of the available information at the measurement date) (see paragraphs D36–D40).</li> </ol>	CP, Measurement
	Uncertainty and the Expected Value Approach	
Paragraph D26 is IED.B39	<p><del>D29</del>.D26. The expected present value technique uses as a starting point a set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources (i.e., the expected outflows of resources). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible outflows of resources are probability-weighted, the resulting expected outflows of resources is not conditional upon the occurrence of any</p>	CP, Measurement

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	specified event (unlike the outflows of resources used in the discount rate adjustment technique).	
Paragraph D27 is IED.B40	<p><del>D30-D27.</del> In determining the expected outflows of resources an entity must:</p> <ol style="list-style-type: none"> <li>a. Identify each possible outcome;</li> <li>b. Make an unbiased estimate of the amount and timing of the future outflows of resources for each outcome;</li> <li>c. Make an unbiased estimate of the probability of each outcome.</li> </ol>	CP, Measurement
Paragraph D28 is IED.B41	<p><del>D34-D28.</del> Paragraph D27 requires the estimate of expected values reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In practice, this may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios. For example, the identification of scenarios that specify the amount and timing of the outflows of resources for particular outcomes and the estimated probability of those outcomes will probably be needed. In those situations, the expected outflows of resources shall reflect at least two outcomes.</p>	CP, Measurement
Paragraph is new to clarify least costly manner and expected value are not contradictory concepts (See September 2020 agenda item 7.2.28).	<p><del>D32-D29.</del> In identifying the set of outflows of resources that represents the probability-weighted average of all possible future outflows of resources, paragraph D2 assumes that the liability is settled by the entity in the least costly manner. Each outflow represents one possible scenario where the liability is settled in the least costly manner.</p>	-
Paragraph D30 is IED.B42	<p>Market Variables and Non-Market Variables (Paragraph D25.b)</p> <p><del>D33-D30.</del> This application guidance identifies two types of variables:</p> <ol style="list-style-type: none"> <li>a. Market variables—variables that can be observed in, or derived directly from, markets (e.g., interest rates); and</li> <li>b. Non-market variables—all other variables (e.g., the frequency and severity of natural disasters impacting decommissioning liabilities).</li> </ol>	CP, Measurement
Paragraph D31 is IED.B43	<p>Market Variables</p> <p><del>D34-D31.</del> Estimates of market variables shall be consistent with observable market prices at the measurement date. An entity shall not substitute its own estimates for observed market prices except as described in paragraph C47. In</p>	CP, Measurement

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	accordance with Appendix A, if market variables need to be estimated (e.g., because no observable market variables exist), they shall be as consistent as possible with observable market variables.	
	<b>Non-Market Variables</b>	
Paragraph D32 is IED.B44	<del>D35-D32.</del> Estimates of non-market variables shall reflect all of the available evidence, both external and internal.	CP, Measurement
Paragraph D33 is IED.B45	<del>D36-D33.</del> Non-market external data (e.g., national statistics for decommissioning of a nuclear power facility) may have more or less relevance than internal data (e.g., internally developed statistics for decommissioning of a nuclear power facility), depending on the circumstances.	CP, Measurement
Paragraph D34 is IED.B46	<del>D37-D34.</del> Estimated probabilities for non-market variables shall not contradict observable market variables. For example, estimated probabilities for future inflation rate scenarios shall be as consistent as possible with probabilities implied by market interest rates.	CP, Measurement
	<b>Estimating Probabilities of Future Payments (Paragraph D25.c)</b>	
Paragraph D35 is IED.B47	<del>D38-D35.</del> An entity estimates the probabilities associated with future payments on the basis of: <ul style="list-style-type: none"> <li>a. Information about the known or estimated characteristics of the liability;</li> <li>b. Historical data about the entity's own experience, supplemented when necessary with historical data from other sources. Historical data is adjusted if, for example: <ul style="list-style-type: none"> <li>i. The characteristics of the liability differ (or will differ, for example because of adverse selection) from those of the population that has been used as a basis for the historical data;</li> <li>ii. There is evidence that historical trends will not continue, that new trends will emerge or that economic or other changes may affect the outflow of resources that arise from the existing liability; or</li> <li>iii. There have been changes in the entity's practices or procedures that may affect the relevance of historical data to the liability.</li> </ul> </li> </ul>	
	<b>Under Current Estimates (Paragraph D25.d)</b>	
Paragraph D36 is IED.B48	<del>D39-D36.</del> In estimating the probability of each outflow of	CP, Measurement



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	<p>resources scenario, an entity shall use all of the available current information at the measurement date. An entity shall review the estimates of the probabilities that it made at the end of the previous measurement date and update them for any changes. In doing so, an entity shall consider whether:</p> <ol style="list-style-type: none"> <li>a. The updated estimates faithfully represent the conditions at the end of the measurement date; and</li> <li>b. The changes in estimates faithfully represent the changes in conditions during the period. For example, suppose that estimates were at one end of a reasonable range at the beginning of the period. If the conditions have not changed, changing the estimates to the other end of the range at the end of the period would not faithfully represent what has happened during the whole period. If an entity's most recent estimates are different from its previous estimates, but conditions have not changed, it shall assess whether the new probabilities that are assigned to each scenario are justified. In updating its estimates of those probabilities, the entity shall consider both the evidence that supported its previous estimates and all of the new available evidence, giving more weight to the more persuasive evidence.</li> </ol>	nt
Paragraph D37 is IED.B49	<p><del>D40.D37.</del> The probability assigned to each scenario shall reflect the conditions at the measurement date. Consequently, in accordance with IPSAS 14, <i>Events after the Reporting Date</i>, an event that occurs after the end of the reporting period and resolves a condition that existed at the reporting date does not provide evidence of a condition that existed at the end of the reporting period. For example, there may be a 20 per cent probability at the end of the reporting period that a major storm will strike prior to a facility being decommissioned that would increase the cost of decommission. After the end of the reporting period and before the financial statements are authorized for issue, a storm strikes. The outflow of resources under that contract shall not reflect the storm that, with hindsight, is known to have occurred. Instead, the outflow of resources that were included in the measurement are multiplied by the 20 per cent probability that was apparent at the end of the reporting period (with appropriate disclosure, in accordance with IPSAS 14, that a non-adjusting event occurred after the end of the reporting period).</p>	CP, Measurement
Paragraph D38 is IED.B50	<p>Future Events (Paragraph D25.d)</p> <p><del>D41.D38.</del> Estimates of non-market variables shall consider not</p>	CP, Measurement



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	just current information about the liabilities but also information about trends. For example, technology has consistently improved over long periods decreasing decommissioning costs. The determination of the outflow of resources reflects the probabilities that would be assigned to each possible trend scenario in the light of all of the available evidence.	nt
Paragraph D39 is IED.B51	<del>D42-D39.</del> Similarly, if the outflow of resources associated with fulfilling the liability are sensitive to inflation, the determination of the outflow of resources shall reflect possible future inflation rates. Because inflation rates are likely to be correlated with interest rates, the measurement of the outflow of resources reflects the probabilities for each inflation scenario in a way that is consistent with the probabilities that are implied by market interest rates.	CP, Measurement
Paragraph D40 is IED.B52	<del>D43-D40.</del> When estimating the outflow of resources associated with fulfilling the liability, an entity shall take into account future events that might affect the outflow of resources. The entity shall develop scenarios that reflect those future events, as well as unbiased estimates of the probability weights for each scenario. However, an entity shall not take into account future events, such as a change in legislation, that would change or discharge the present obligation or create new obligations under the existing liability.	CP, Measurement
Paragraph D41 is IED.B53	Time Value of Money <del>D44-D41.</del> Entities are not indifferent to the timing of an outflow of resources. Accordingly, the timing of the future outflows of resources is a characteristic of a liability and needs to be encompassed in any measurement of a liability's current value. Failure to reflect the time value of money would mean that the resulting measurement would not be a faithful representation of the economic burden the liability represents.	CP, Measurement
Paragraph D42 is IED.B54	<del>D45-D42.</del> An entity shall determine the estimated outflows of resources by adjusting the estimates of future outflows of resources for the time value of money, using discount rates that reflect the characteristics of the liability. Such rates shall: a. Be consistent with observable current market prices for instruments with outflows of resources whose characteristics are consistent with those of the liability's outflows of resources, in terms of, for example, timing, currency and liquidity. b. Exclude the effect of any factors that influence the observable market prices but that are not relevant to the outflows of resources of the liability.	CP, Measurement
Paragraph D43 is IED.B55	<del>D46-D43.</del> When using a risk-free rate, the logical sources of	CP, Measurement

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	reference rates are high quality bonds, for example, bonds issued by a financially sound government. These instruments should include no or insignificant default risk. They will also typically have a range of maturity dates or durations to match the liability durations. In the event that long-dated bonds are unavailable for liabilities with long durations, such as some decommissioning liabilities, it would be necessary to use extrapolation techniques to estimate the rates.	nt
Paragraph D44 is IED.B56	<del>D47-D44.</del> Although rates on high quality government bonds will not need to be adjusted for default risk in determining the risk-free discount rate, they may need to be adjusted for liquidity risk. Some government bonds are traded in deep and liquid markets enabling bond holders to readily sell them at minimal cost. The rate payable on such bonds is lower than the rate payable on an equivalent illiquid bond. Accordingly, it might be necessary to include a 'premium for illiquidity' in the observed rate for government bonds that are not traded in deep and liquid markets.	CP, Measurement
	<b>Inputs to <del>Valuation</del> Measurement Techniques</b>	
	General Principles	
Paragraph D45 is IED.B57	<del>D48-D45.</del> Measurement techniques used in a cost of <del>fulfillment</del> settlement measurement reflects entity-specific assumptions rather than assumptions used by market participants.	CP, Measurement
Paragraph D46 is IED.B58	<del>D49-D46.</del> The cost of <del>fulfillment</del> settlement measurement is an entity specific valuation. When a measurement technique is applied, an entity shall select inputs that are consistent with the characteristics of the liability (see paragraph D10). The technique should maximize the use of observable inputs that are available to a market participant that is making the same valuation as the entity, from the entity's perspective. For example, when measuring the cost to fulfill a decommissioning liability where payments are due in 50 years, an observable market input when discounting the outflow of resources is the government bond rate applicable to the entity.	CP, Measurement
Paragraph D47 is IED.B59	<del>D50-D47.</del> In some cases the characteristics of a liability may result in the application of an adjustment (e.g., there is no corresponding bond rate to discount an outflow of resources due in 3.5 years). However, a cost of <del>fulfillment</del> settlement measurement shall not incorporate an adjustment that is inconsistent with the unit of account in the IPSAS that requires or permits the cost of <del>fulfillment</del> settlement measurement.	CP, Measurement
Paragraph D48 is IED.B60	<del>D51-D48.</del> When a liability will settle at a future date, the	CP, Measurement

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	<p>assumptions applied in developing and identifying inputs are based on current market conditions. For example, a decommissioning liability may be expected to settle in 50 years. The payment due on <del>fulfillment</del><u>settlement</u> and the associated discount rate are both based on information available at the measurement date.</p>	

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	<b>Appendix E: Value in Use – <del>a</del>Application <del>g</del>Guidance</b> <i>This Appendix is an integral part of [draft] IPSAS [X] (ED XX).</i>	
	<b>Measurement</b>	
<p><i>Paragraph E1 is added to provide guidance on new measurement basis – value in use</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p>E1. The objective of a value in use measurement is to estimate the value of an asset based on economic benefit it generates while the entity continues to use the asset in its operations, and the net amount the entity will receive from its disposal at the end of its useful life. A value in use measurement requires an entity to determine all the following:</p> <ol style="list-style-type: none"> <li>The particular asset that is the subject of the measurement (consistently with its unit of account).</li> <li>The entity-specific expected cash flows from continued operations.</li> <li>Expected disposal proceeds.</li> <li>The measurement technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs when pricing the asset.</li> </ol>	<p><i>Based on D1 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)</i></p>
	<b>The Asset</b>	
<p><i>Paragraph E1 is generic guidance across all AGs. Moved to core text paragraph 7.</i></p>	<p><del>E2. A value in use measurement is for a particular asset. Therefore, an entity takes into account characteristics of the particular asset relevant in determining its value in use at the measurement date. Such characteristics include, for example, the following:</del></p> <ol style="list-style-type: none"> <li><del>The economic benefit the asset provides for the entity; and</del></li> <li><del>The entity's expectations about the amount and timing of those economic benefits.</del></li> </ol>	<p><del><i>Based on D1 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)</i></del></p>
<p><i>Paragraph 0 is generic guidance across all AGs. Moved to core text paragraph 8.</i></p>	<p><del>The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by the specific entity.</del></p>	<p><del><i>Based on D1 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)</i></del></p>
<p><i>Paragraph E1 is generic guidance across all AGs. Moved to core text paragraph 9.</i></p>	<p><del>E3. The asset measured at its value in use might be either of the following:</del></p> <ol style="list-style-type: none"> <li><del>A stand-alone asset (e.g., an item of property, plant, and equipment); or</del></li> <li><del>A group of assets (e.g., a cash-generating unit or an operation).</del></li> </ol>	<p><del><i>Based on D1 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)</i></del></p>

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Paragraph E2 is new  See September 2020 Agenda Item 7.2.17.	<del>E4.E2.</del> The calculation of value in use can be complex. Assets that are employed in cash-generating activities often provide cash flows jointly with other assets. In such cases value in use can be estimated only by calculating the present value of the cash flows of a group of assets and then making an allocation to individual assets	IPSASB CF 7.66
Paragraph E3 is generic guidance across all AGs. Moved to core text paragraph 10.	<del>E5.E3. Whether the asset is a stand-alone asset or a group of assets for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset shall be determined in accordance with the IPSAS that requires or permits the value in use measurement, except as provided in this Application Guidance.</del>	<del>Based on 0 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)</del>
	<b>The Entity-Specific Expected Cash Flows from Continued Operations and Disposal</b>	
Paragraph E4 is new  See September 2020 Agenda Item 7.2.17.	<del>E6.E4.</del> The value in use represents the current value of the asset's future economic benefits. This may be based on the future cash inflows related to the asset, or on cost savings that will accrue to the entity through its control of the asset. The calculation of value in use takes into account the time value of money and, in principle, the risk of variations in the amount and timing of cash flows.	IPSASB CF 7.65
Paragraph E5 is new  See September 2020 Agenda Item 7.2.17.	<del>E7.E5.</del> Where the value in use depends on uncertain future events, all possible outcomes are taken into account in the estimated value in use, which aims to reflect all those possible outcomes in an unbiased manner.	Based on D14 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)
	Entity-Specific Value	
Paragraph E6 is new  See September 2020 Agenda Item 7.2.17.	<del>E8.E6.</del> The value in use is an entity specific value. An entity shall measure the value in use of an asset using the assumptions from the entity's perspective, assuming the entity acts in accordance with its own public sector objective.	Based on D8 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)
Paragraph E7 is new  See September 2020 Agenda Item 7.2.17.	<del>E9.E7.</del> In developing those entity-specific assumptions, an entity shall identify characteristics specific to the entity and the asset, considering factors specific to all the following:  a. The asset;  b. The entity's expectations about the amount and timing of future economic benefits; and  c. The time value of money.	Based on D9 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)
Paragraph E8 is new	<del>E10.E8.</del> When estimating market-based assumptions, such as the	Based on D10 of cost

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See September 2020 Agenda Item 7.2.17.	time value of money, there may be little difference between the assumptions that a market participant would apply and those and entity uses itself.	of fulfillment AG for consistency (VIU is assets / CoS is liabilities)
Paragraph E9 is new See September 2020 Agenda Item 7.2.17.	Continued Operations  <del>E44-E9</del> . A value in use measurement shall incorporate the future inflows of resources the entity expects to receive assuming the asset is continued to be used for operational purposes. The inflows of resources are based on the entity's use of the asset to satisfy its own public policy objectives. How another entity may use the asset is not considered when measuring the value of the asset's continued use.	Based on IPSASB CF 7.65
Paragraph E10 is new See September 2020 Agenda Item 7.2.17.	<del>E12-E10</del> . Where the asset is expected to be used for an extended period, the cash flows need to be discounted to reflect the time value of the money. As a practical expedient, an entity need not discount the value of the future inflows of resources if the entity expects the asset to be settled within one year.	Based on D15 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)
Paragraph E11 is new See September 2020 Agenda Item 7.2.17.	Expected Disposal Proceeds  <del>E43-E11</del> . The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.	IPSAS 26.65
Paragraph E12 is new See September 2020 Agenda Item 7.2.17.	<del>E44-E12</del> . The price used to measure the value in use of the asset shall not be adjusted for transaction costs incurred to enter into the transaction. Entry-based transaction costs have no impact on the expected disposal proceeds. In contrast, transaction costs that are expected to be incurred, or exit-based, in selling the asset are a future outflow of resources that is relevant in measuring the current value of the asset and are included in measuring the value in use.	Based on D13 of cost of fulfillment AG for consistency (VIU is assets / CoS is liabilities)
Paragraph E13 is new See September 2020 Agenda Item 7.2.17.	<del>E45-E13</del> . The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs to sell, except that, in estimating those net cash flows: (a) An entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used; and (b) The entity adjusts those prices for the effect of both future price increases due to general inflation and	IPSAS 26.66

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	specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.	
Paragraph E14 is new  See September 2020 Agenda Item 7.2.17.	<p><b>Measurement Techniques</b></p> <p><del>E16</del>.E14. An entity shall use measurement techniques that are appropriate in the circumstances and for which sufficient data is available to measure the value in use. The value in use reflects entity-specific assumptions rather than assumptions used by market participants. In practice, there may be little difference between the assumptions that a market participant would apply and those and entity uses itself.</p>	Based on C27 of fair value AG for consistency
Paragraph E15 is new  See September 2020 Agenda Item 7.2.17.	<p><del>E17</del>.E15. The objective of using a measurement technique is to estimate the economic benefits, including those received on disposal, the entity expects to receive at the measurement date under current market conditions. The most commonly used valuation approach when measuring the value in use is an income approach. The main aspects of that approach as it relates to the value in use are summarized in paragraphs E16–E41.</p>	Based on C28 of fair value AG for consistency
	<b>Cost Approach (PLACEHOLDER)</b>	
	Placeholder for cost approach. IPSASB decision on whether VIU is applied to measure service potential – in IPSAS 21 – will drive whether a cost approach technique is necessary. See Agenda Item 7.2.17.	
Paragraph E16 is new  See September 2020 Agenda Item 7.2.17.	<p>Income Approach</p> <p><del>E18</del>.E16. Applying the income approach to estimate the value in use shall take into account the attributes of the value in use measurement basis. This includes:</p> <ul style="list-style-type: none"> <li>a. An estimate of the future cash flows the entity expects to derive from the asset.</li> <li>b. Expectations about possible variations in the amount or timing of those future cash flows.</li> <li>c. The time value of money, represented by the current market risk-free rate of interest.</li> <li>d. The price for bearing the uncertainty inherent in the asset.</li> <li>e. Other factors that impact the value of the asset.</li> </ul>	<p>Based on C39 of fair value AG for consistency</p> <p>Attributes based on IPSAS 26.43</p>
Paragraph E17 is new  See September 2020 Agenda Item 7.2.17.	<p><del>E19</del>.E17. Paragraphs IG1–IG18 describe the use of present value techniques to measure the value in use. Those</p>	Based on C41 of fair value AG for



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	<p>paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure the value in use to the techniques discussed. The present value technique used to measure the value in use will depend on facts and circumstances specific to the asset being measured and the availability of sufficient data.</p>	consistency
<p>Paragraph E18 is new See September 2020 Agenda Item 7.2.17.</p>	<p><del>E20</del>-E18. Estimating the value in use of an asset involves the following steps:</p> <ol style="list-style-type: none"> <li>a. Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and</li> <li>b. Applying the appropriate discount rate to those future cash flows.</li> </ol>	IPSAS 26.44
<p>Paragraph E19 is new See September 2020 Agenda Item 7.2.17.</p>	<p><del>E24</del>-E19. The elements identified in paragraph E16(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes. Paragraphs IG1–IG18 provides additional guidance on the use of present value techniques in measuring an asset's value in use.</p>	IPSAS 26.45
	Basis for Estimates of Future Cash Flows	
<p>Paragraph E20 is new See September 2020 Agenda Item 7.2.17.</p>	<p><del>E22</del>-E20. In measuring value in use, an entity shall:</p> <ol style="list-style-type: none"> <li>(a) Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence;</li> <li>(b) Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and</li> <li>(c) Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can</li> </ol>	IPSAS 26.46



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	be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.	
<p><i>Paragraph E21 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E23-E21.</del> Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided that the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.</p>	<p>IPSAS 26.47</p>
<p><i>Paragraph E22 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E24-E22.</del> Detailed, explicit, and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable, and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.</p>	<p>IPSAS 26.48</p>
<p><i>Paragraph E23 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E25-E23.</del> Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts, using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.</p>	<p>IPSAS 26.49</p>
<p><i>Paragraph E24 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E26-E24.</del> When conditions are favorable, competitors may enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used.</p>	<p>IPSAS 26.50</p>
<p><i>Paragraph E25 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E27-E25.</del> In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.</p>	<p>IPSAS 26.51</p>
	<b>Composition of Estimates of Future Cash Flows</b>	

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<p>Paragraph E26 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E28</del>-E26. Estimates of future cash flows shall include:</p> <ul style="list-style-type: none"> <li>(a) Projections of cash inflows from the continuing use of the asset;</li> <li>(b) Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and</li> <li>(c) Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.</li> </ul>	<p>IPSAS 26.52</p>
<p>Paragraph E27 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E29</del>-E27. Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).</p>	<p>IPSAS 26.53</p>
<p>Paragraph E28 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E30</del>-E28. Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.</p>	<p>IPSAS 26.54</p>
<p>Paragraph E29 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E31</del>-E29. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.</p>	<p>IPSAS 26.55</p>
<p>Paragraph E30 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E32</del>-E30. To avoid double-counting, estimates of future cash flows do not include:</p> <ul style="list-style-type: none"> <li>(a) Cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and</li> <li>(b) Cash outflows that relate to obligations that have been recognized as liabilities (for example, payables, pensions, or provisions).</li> </ul>	<p>IPSAS 26.56</p>
<p>Paragraph E31 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E33</del>-E31. Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:</p> <ul style="list-style-type: none"> <li>(a) A future restructuring to which an entity is not yet</li> </ul>	<p>IPSAS 26.57</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>committed; or</p> <p>(b) Improving or enhancing the asset's performance.</p>	
<p>Paragraph E32 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E34-E32.</del> Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:</p> <p>(a) Future cash outflows or related cost savings (for example, reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or</p> <p>(b) Future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.</p>	<p>IPSAS 26.58</p>
<p>Paragraph E33 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E35-E33.</del> A restructuring is a program that is (a) planned and controlled by management, and (b) materially changes either the scope of the entity's activities or the manner in which those activities are carried out. IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, contains guidance clarifying when an entity is committed to a restructuring.</p>	<p>IPSAS 26.59</p>
<p>Paragraph E34 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E36-E34.</del> When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:</p> <p>(a) Its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and</p> <p>(b) Its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with IPSAS 19.</p>	<p>IPSAS 26.60</p>
<p>Paragraph E35 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E37-E35.</del> Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits or service potential associated with the expected cash outflow.</p>	<p>IPSAS 26.61</p>
<p>Paragraph E36 is new</p> <p>See September 2020 Agenda Item 7.2.17.</p>	<p><del>E38-E36.</del> Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits or service potential expected to arise from the asset in its current condition. When a unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is considered to be part of the</p>	<p>IPSAS 26.62</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	day-to-day servicing of the asset when estimating the future cash flows generated by the asset.	
<p><i>Paragraph E37 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E39</del>-<del>E37</del>. <i>Estimates of future cash flows shall not include:</i></p> <p>(a) <i>Cash inflows or outflows from financing activities; or</i></p> <p>(b) <i>Income tax receipts or payments.</i></p>	<p><i>IPSAS 26.63</i></p>
<p><i>Paragraph E38 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E40</del>-<del>E38</del>. <i>Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, since the discount rate is determined on a pre-tax basis, future cash flows are also determined on a pre-tax basis.</i></p>	<p><i>IPSAS 26.64</i></p>
	<b><i>Discount Rates</i></b>	
<p><i>Paragraph E39 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E41</del>-<del>E39</del>. <i>The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:</i></p> <p>(a) <i>The time value of money, represented by the current risk-free rate of interest; and</i></p> <p>(b) <i>The risks specific to the asset for which the future cash flow estimates have not been adjusted.</i></p>	<p><i>IPSAS 26.68</i></p>
<p><i>Paragraph E40 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E42</del>-<del>E40</del>. <i>A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing, and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.</i></p>	<p><i>IPSAS 26.69</i></p>
<p><i>Paragraph E41 is new</i></p> <p><i>See September 2020 Agenda Item 7.2.17.</i></p>	<p><del>E43</del>-<del>E41</del>. <i>When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The Application Guidance provides additional guidance on estimating the discount rate in such circumstances.</i></p>	<p><i>IPSAS 26.70</i></p>

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	<b>Basis for Conclusions</b> <i>This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS XX (ED 77).</i>	
	<b>Introduction</b> <i>The Purpose of Measurement in Public Sector Financial Statements</i>	
Paragraph BC1 is IED.BC1	<p>BC1. 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. 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:</p> <ul style="list-style-type: none"> <li>(a) Whether the entity provided its services to constituents in an efficient and effective manner;</li> <li>(b) The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use;</li> <li>(c) To what extent the burden on future-year taxpayers of paying for current services has changed; and</li> <li>(d) Whether the entity's ability to provide services has improved or deteriorated compared with the previous year.</li> </ul>	
	Service Delivery Objective and Public Sector Assets and Liabilities	
Paragraph BC2 is IED.BC2.	<p>BC2. 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 specialized 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.</p>	
Paragraph BC3 is IED.BC3	<p>BC3. Another common feature of public sector assets is that they have restrictions on their use, which need to be taken into account when measurement aims to derive a value that reflects existing use. Measurement issues arise even where there are no restrictions and the aim is to reflect an asset's highest and best use.</p>	
Paragraph BC4 is IED.BC4	<p>BC4. 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.</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
Paragraph BC5 is IED.BC5	BC5. 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	
Paragraph BC6 is IED.BC6	BC6. Chapter 7 of <i>The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (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, public sector entities' objectives, different types of assets and liabilities, and the importance of service potential.	
Paragraph BC7 is IED.BC7	BC7. 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.	
Paragraph BC8 is IED.BC8	BC8. 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. The objective of measurement is:	
Paragraph BC9 is IED.BC9	BC9. 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.	
	Relationship Between ED, Measurement and Other IPSASs	
Paragraph BC10 is IED.BC10	BC10. During development of this ED the IPSASB considered including all requirements with respect to measurement of assets and liabilities in one Standard, in order to provide a comprehensive "one stop shop". However, the IPSASB concluded that other IPSAS should address impairment, depreciation, amortization, and any specific measurement requirements relating to the assets or liabilities covered by the IPSAS, for example the measurement of intangible assets or of employee benefit liabilities. IPSAS, <i>Measurement</i> , should provide the definitions and generic application guidance for the measurement bases identified in the Conceptual Framework and fair value. The aim is to support consistent application of measurement bases referred to in other IPSAS.	
Paragraph BC11 is IED.BC11	BC11. The IPSASB decided to develop application guidance for the following four measurement bases: fulfillment value, fair value, historical cost, and replacement cost, because the greater need for application guidance relates to these four measurement bases. Appendices with application guidance on other measurement bases	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	may be added in the future.	
	Application Guidance on Fair Value	
Paragraph BC12 is IED.BC12	BC12. This ED has application guidance for the fair value measurement basis. During development of this ED the IPSASB considered whether the fair value measurement basis was relevant to measuring assets and liabilities held by public sector entities. The IPSASB concluded that: there are assets and liabilities held by public sector entities, which should be measured at fair value; and, the term “fair value” should have the same meaning as that established by IFRS 13, <i>Fair Value Measurement</i> .	
Paragraph BC13 is IED.BC13	BC13. In reaching these two conclusions the IPSASB noted that there are references to fair value throughout IPSAS, however the IPSAS definition of fair value is derived from a pre-IFRS 13 definition. IFRS 13 defines fair value as an exit value, as follows: <i>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.</i>	
Paragraph BC14 is IED.BC14	BC14. The IPSASB’s Conceptual Framework does not include fair value in its list of measurement bases, because the IPSASB considered that the IFRS 13 meaning of fair value would not be appropriate for many public sector assets and liabilities, because it is an exit value. However, during development of this ED the IPSASB’s work on financial instruments has demonstrated that an exit-based definition of fair value is relevant for many financial instruments and more generally assets held for financial rather than operational capacity.	
Paragraph BC15 is IED.BC15	BC15. The IPSASB decided, with support from members of its Consultative Advisory Group (CAG), that if the term “fair value” continues to be used in IPSAS, the same meaning as that in IFRS 13 should apply. This avoids confusion and supports good quality measurement, when using this measurement basis.	
Paragraph BC16 is IED.BC16	BC16. In June 2018 the IPSASB approved IPSAS 41, <i>Financial Instruments</i> , which is an IFRS-aligned IPSAS. IPSAS 41 identifies fair value as a measurement basis applicable to financial instruments. The IPSASB had already decided, in September 2017, that the Measurement project should allow for measurement at fair value, with the issue being one of how to integrate the IFRS 13 definition of fair value into IPSAS. The IPSASB decided that IPSAS, <i>Measurement</i> , should include the majority of IFRS 13 text to ensure that its definition of fair value would be consistent with that in IFRS 13, and adequately support IPSAS 41’s requirements with respect to measurement of financial instruments at fair value. On that basis the ED’s appendix with fair value application guidance has reproduced the majority of IFRS 13 text and aims to ensure that the ED’s definition of fair value is the same as that established in IFRS 13.	
	Use of Fair Value throughout IPSAS	
Paragraphs BC17 to BC18 are added by IPSASB decision (see June 2020 Agenda Item 7.2.3).	BC17. A review of existing IPSAS was performed to determine whether the updated fair value was applicable in IPSAS where legacy fair value was applied. The IPSASB considered the components of the IFRS 13 definition of fair value to identify the key indicator or indicators of the appropriateness of fair value. The IPSASB concluded that exit vs. entry distinction is not useful in selecting measurement bases (see [PLACEHOLDER: insert reference to John’s BC for Jun’20 Agenda 6.2.8 where Board made decision that <i>Selection of</i>	



NOTES	DRAFT IPSAS XX, Measurement	Original Source
	<p><i>measurement bases should be linked to the measurement objective (especially financial capacity / operational capacity) rather than to entry/exit values</i>). One member noted that some jurisdictions considered specialized vs. non-specialized distinction to be useful in considering whether fair value is an appropriate measurement basis. The IPSASB concluded that while the specialization of an asset is a useful distinction and a component of the definition of fair value, is it not a clear determinant when assessing the appropriateness of fair value. Rather, members agreed that an entity's intent to hold the asset or liability for either financial or operational capacity is the clearest indicator, and the analysis focused primarily on this primary measurement objective. The IPSASB concluded that fair value is an appropriate measurement basis when the asset is held or the liability incurred primarily for its financial capacity.</p>	
	<p>BC18. Members also cautioned against a “blanket approach” of fair value appropriateness by Standard, as there may be instances where the use of fair value appropriateness may differ by reporting entity in a consolidation, or where a cash generating or non-cash generating asset may have hybrid measurement objectives. It is important to consider transaction- and entity-specific considerations within each IPSAS when selecting measurement bases.</p>	
<p><i>Paragraph BC19 is added by IPSASB decision (see September 2020 Agenda Item 7.2.22).</i></p>	<p><a href="#">BC19. In cases where an asset is used for both cash-generating and non-cash generating purposes, an entity should apply existing principles from IPSAS 21 to determine the primary objective of holding the asset when selecting the appropriate measurement basis. The IPSASB emphasized that it is important for an entity to exercise professional judgment in this determination. The IPSASB noted the existing IPSAS guidance sufficiently illustrates accounting principles and added IG.B.1 to provide additional non-authoritative guidance for entities in assessing assets with hybrid uses.</a></p>	
<p><i>Paragraph BC20 is added by IPSASB decision (see September 2020 Agenda Item 7.2.23).</i></p>	<p><a href="#">BC20. In cases where assets held for operational capacity and assets held for financial capacity are within the scope of the same IPSAS, an entity should exercise professional judgment, consider entity- and transaction-specific factors, and apply accounting principles in existing IPSAS. The primary measurement objective, and in turn the measurement basis, is determined for each individual asset or class of assets (i.e. assets with similar nature and use to an entity's operations within the same IPSAS). The IPSASB concluded that accounting principles to guide an entity to group assets of similar nature and determine the intended primary objective are sufficiently illustrated in existing IPSAS guidance.</a></p>	
<p><a href="#">Paragraphs BC21 to BC22 are added by IPSASB decision (see June 2020 Agenda Item 7.2.3).</a></p>	<p><del>BC19</del><a href="#">BC21.</a> The IPSASB concluded that:</p> <ul style="list-style-type: none"> <li>(a) Use of the term fair value is appropriate, i.e. consistent with the IFRS 13-based definition to be included in the Conceptual Framework and Measurement, in IPSAS 16, 27, 34, 39, and 41;</li> <li>(b) Use of the term fair value is inappropriate in IPSAS 32 and will need to be replaced in accordance with the consolidated guidance in ED Measurement; and</li> <li>(c) Use of the term fair value is appropriate in certain situations in IPSAS 33 and 36.</li> </ul>	
	<p><del>BC20</del><a href="#">BC22.</a> The IPSASB concluded that the need for consequential amendments will be decided on a case by case basis in accordance with ED, <i>Measurement</i>.</p>	



NOTES	DRAFT IPSAS XX, Measurement	Original Source
Paragraph BC23 was added to indicate which IFRS 13 paragraphs have been excluded (see September 2020 agenda item 7.2.13)	<p><b>BC24-BC23.</b> As noted in BC10, guidance in IPSAS, Measurement, is generic in nature. As such specific measurement guidance in IFRS 13 has been located in the applicable IPSAS. For example:</p> <p>(a) IFRS 13 paragraphs 34-56 and 70-71 are specific to measuring financial instruments and have been added to IPSAS 41, <i>Financial Instruments</i>.</p>	
Paragraph BC24 is IED.BC17	<p><b>Objective (paragraph 1)</b></p> <p><b>BC22-BC24.</b> ED XX's objective explains that it focuses on the definition of appropriate measurement bases and their derivation. It does not establish requirements for which measurement bases should be used in IPSASs. The ED's objective refers to the objective of measurement in the Conceptual Framework because this underpins its approach to measurement bases and their selection.</p>	
Paragraph BC25 is IED.BC18	<p><b>Scope and definitions (paragraphs 2–3)</b></p> <p><b>BC23-BC25.</b> ED XX's scope conveys that the Standard's definitions of measurement bases and related application guidance applies when another IPSAS requires measurement using one of the defined measurement bases. As part of its scoping decision, the IPSASB considered whether the ED should include guidance on the measurement of assets held for sale, as envisioned in IFRS 5, <i>Non-Current Assets Held for Sale and Discontinued Operations</i>. The IPSASB noted that the issues relating to the measurement of assets held for sale are similar to those relating to the measurement of impaired assets, which is outside the scope of the project. Therefore, it was decided that the measurement of assets held for sale should also be excluded.</p>	
Paragraph BC26 is IED.BC19	<p><b>Subsequent Measurement</b> Depreciation and Amortization</p> <p><b>BC24-BC26.</b> Depreciation is a charge for the consumption of an asset over its useful life. ED XX does not address depreciation. Requirements and guidance on depreciation are provided at standards-level. For example, IPSAS 17, <i>Property, Plant and Equipment</i>, addresses:</p> <ul style="list-style-type: none"> <li>(a) The unit of account for depreciation,</li> <li>(b) The recognition of depreciation,</li> <li>(c) The point at which depreciation of an asset begins,</li> <li>(d) The relationship between economic and useful lives,</li> <li>(e) The circumstances under which land may be depreciated,</li> <li>(f) Depreciation methods, and</li> <li>(g) The relationship between the revenue generated by an asset and depreciation.</li> </ul>	
Paragraph BC27 is IED.BC20	<p><b>BC25-BC27.</b> Amortization is the term applied to the consumption of an intangible asset that does not have a physical substance. As for depreciation, requirements and guidance are provided at standards-level, and ED XX does not address amortization. IPSAS 31,</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	<p><i>Intangible Assets</i>, distinguishes intangible assets with definite and indefinite useful lives, and for the former provides requirements and guidance on amortization periods and methods and their review and residual value.</p>	
<p>Paragraph BC28 is IED.BC21</p>	<p><del>BC26</del>.BC28. The selection of an accounting policy for measurement subsequent to initial recognition may have an impact on whether an asset is depreciated or amortized. This is determined at standards level. For example IPSAS 17 requires that assets on the revaluation model with useful lives are depreciated. IPSAS 16, <i>Investment Property</i>, does not require depreciation of an investment property that is measured in accordance with the fair value model subsequent to initial recognition. IPSAS 31 does not permit amortization of an asset that is classified as held for sale.</p>	
<p>Paragraph BC29 is IED.BC22</p>	<p>Use of the Historical Cost Model or Revaluation Model</p> <p><del>BC27</del>.BC29. The IPSASB accepts that the existence of accounting policy options reduces comparability between reporting entities. The IPSASB discussed whether ED, <i>Measurement</i>, should consider the options for measurement subsequent to initial recognition in existing IPSAS with a view to eliminating or reducing those options.</p>	
<p>Paragraph BC30 is IED.BC23</p>	<p><del>BC28</del>.BC30. The IPSASB noted that Chapter 7 of the Conceptual Framework sets out the measurement objective (see paragraph BC8).</p>	
<p>Paragraph BC31 is IED.BC24</p>	<p><del>BC29</del>.BC31. The Conceptual Framework goes on to state that it is not possible to identify a single measurement basis that best meets the measurement objective and acknowledges both historical cost and current value measurements.</p>	
<p>Paragraph BC32 is IED.BC25</p>	<p><del>BC30</del>.BC32. The IPSASB concluded that:</p> <ul style="list-style-type: none"> <li>(a) It would be inconsistent with the Conceptual Framework to eliminate existing accounting policy options for subsequent measurement; and that</li> <li>(b) Such a step would be outside the scope of this ED, which is to provide requirements and guidance on the definitions and application of measurement bases (i.e., what is meant by each measurement basis and how to derive measurement bases), rather than to specify where they should be used. The latter is a decision for individual standards.</li> </ul>	
<p>Paragraph BC33 is IED.BC26</p>	<p><del>BC31</del>.BC33. A decision on whether to use historical cost or current value for measurement subsequent to initial recognition is likely to be made by regulator(s) in a particular jurisdiction. The Basis for Conclusions of the Conceptual Framework notes that many respondents to the Conceptual Framework Consultation Paper and ED on Measurement advocated the continued widespread use of historical cost, mostly in combination with other measurement bases. Supporters of historical cost referenced the accountability objective of financial reporting, the verifiability of historical cost and its suitability for budget reporting purposes where budgets are prepared on a historical cost basis.</p>	
<p>Paragraph BC34 is</p>	<p><del>BC32</del>.BC34. Conversely those who supported current values, and</p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
IED.BC27	<p>adopted a view that historical cost should be used as a proxy for current value, linked this view to both decision making and accountability, arguing that the cost of service provision should reflect the value of assets used in service provision at the time they are consumed, rather than their transaction price. Some of these views may inform the decisions of regulators.</p>	
<p>Paragraph BC35 is added by IED.BC28</p>	<p><b>Financial Instruments Measured at Historical Cost</b></p> <p><b>BC33-BC35.</b> The amortized cost of a financial asset or financial liability reflects estimates of future cash flows discounted at a rate that is not updated after initial recognition. For loans given or received, if interest is receivable or payable regularly, the amortized cost of the loan typically approximates the amount originally paid or received. Therefore, the amortized cost of a financial asset or liability is considered to be a form of historical cost.</p>	
	<p>Use of Value in Use Application Guidance</p>	
	<p><b>BC34-BC36.</b> The IPSASB noted measuring value in use shares many characteristics with fair value measurement when the income approach is applied. The IPSASB concluded a value in use measurement bases was necessary in circumstances where the value in use exceeded the selling price of the asset. In such circumstances, the asset's value to the entity was maximized through the continued provision of services, as opposed to sale. In order to reflect this information to users, a value in use calculation is necessary that resides outside of the fair value income approach, which is only applied when the market approach is not available.</p>	<p>Based on IPSASB CF 7.61</p>
	<p><b>BC35-BC37.</b> Value in use is therefore an appropriate measurement basis for the assessment of certain impairments, because it provides information regarding value of the asset assuming its continued operation.</p>	<p>Based on IPSASB CF 7.62</p>
	<p><u>Application of Measurement Techniques</u></p>	
<p>Paragraph BC38 is added by IPSASB decisions (see September 2020 Agenda Items 7.2.6, 7.2.8, and 7.2.10)</p>	<p><b>BC38.</b> <u>Since measurement techniques consider the attributes of measurement bases, some techniques can be applied to multiple bases. As such, the IPSASB decided to place generic measurement technique guidance in the core text to reflect the generic nature of the measurement technique and enable them to be applicable across multiple measurement bases.</u></p>	
<p>Paragraph BC39 is added by IPSASB decisions (see September 2020 Agenda items 7.2.7, 7.2.9, and 7.2.13)</p>	<p><b>BC39.</b> <u>The IPSASB considered the intent and data provided by each measurement technique in meeting the objective of each measurement basis. Specifically, a measurement technique can be used to estimate a measurement basis when it uses data available to estimate and reflect the attributes of that basis. Based on this analysis, the IPSASB concluded:</u></p> <ul style="list-style-type: none"> <li><u>(a) Market approach can be used to estimate the fair value and current cost measurement bases;</u></li> <li><u>(b) Income approach can be used to estimate the fair value, value in use, and cost of fulfillment measurement bases; and</u></li> <li><u>(c) Cost approach can be used to estimate the fair value and current cost measurement bases.</u></li> </ul>	
	<p><u>While in some cases, a measurement basis can be estimated using</u></p>	

NOTES	DRAFT IPSAS XX, Measurement	Original Source
	<p><u>multiple measurement techniques, the IPSASB noted that judgment is required to select and apply the most appropriate technique to estimate the specific measurement basis for each transaction, that best meets the objective of that basis.</u></p>	
	<p><u>Initial Measurement</u></p>	
	<p><u>BC40. The IPSASB concluded its measurement hierarchy was applicable to measurement in the financial statements. In reaching this conclusion, the IPSASB also considered whether the measurement hierarchy applied on the date the entity gains control of the asset or incurs a present obligation ("the transaction date").</u></p>	
	<p><u>BC41. On the transaction date, an asset or liability is measured at its transaction price or, when the transaction price does not meet the qualitative characteristics or take into account the constraints on information in general purpose financial reports, at a deemed cost. This approach is applied regardless of whether the current value model or historical cost model is applied when measuring assets and liabilities in the financial statements.</u></p>	
	<p><u>BC42. A transaction price is applied, where appropriate, because transactions occurring in orderly markets are negotiated between parties at arm's length and are presumed to faithfully present the economics of the transaction. The transaction price is therefore useful for decision making purposes and to the users of the financial information to hold decision makers to account. Where transaction cost is not appropriate, a deemed cost is calculated using a current value measurement technique to approximate the value asset or liability on the transaction date.</u></p>	
	<p><u>BC43. Because measurement is consistent on the transaction date, the IPSASB decided to clarify the approach in [draft] IPSAS X, ED 77, <i>Measurement</i> and indicate its measurement hierarchy applies to measurement in the financial statements.</u></p>	
	<p><u>BC44. After measurement on the transaction date, the entity makes an accounting policy choice to apply a historical cost or current value measurement model to reflect the measurement objective of the item being measured. The accounting policy choice impacts the measurement when the item is first, and subsequently, recognized in the financial statements.</u></p>	

## Implementation Guidance

*This guidance accompanies, but is not part of, [draft] ED (X), Measurement.*

### Section A: Attributes of Measurement Bases

*A.1 What are the attributes of each measurement basis*

**What are the attributes of each measurement basis?**

	Fair Value	<del>Cost</del> Service Cost	<del>Settle</del> Fulfillment	Value in Use	Historical Cost
Asset Valuation	X	X		X	X
Liability Valuation	X	X	X		X
Exit Value	X		X	X	
Entity Specific		X	X	X	X
Market Inputs	X				
Market Participant	X				
Non-Performance Risk	X				
Risk Premium	X				
Current Market Conditions	X	X	X	X	
Principal or most advantageous market	X				
Highest and Best Use	X				
Least costly manner			X		

## Section B: Present Value

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
Paragraphs B.1 is added by IPSASB decision (see September 2020 Agenda Item 7.2.22).	<p><b><u>Section B: Selection of Measurement Bases</u></b></p> <p><b><u>B.1. How does an entity determine the intended primary measurement objective of an asset?</u></b></p> <p><u>Where an asset is used for both cash-generating and non-cash-generating purposes, an entity shall determine the primary objective of holding the asset in order to select the appropriate measurement basis. An entity should apply professional judgment and consider the principles outlined in IPSAS 21 (paragraphs 16-21) to determine the asset's intended primary objective. Where an entity is unable to do so using those principles, an entity shall presume that the asset is non-cash generating given the overall objective of the public sector, inferring operational capacity as the primary measurement objective.</u></p>	
Paragraph IG1 is IED.A43	<p><b><u>Section BC: Present Value</u></b></p> <p><b>IG1.</b> Paragraphs IG2–IG18 describe the use of present value methods when applied in the income approach measurement technique. Those paragraphs focus on a discount rate adjustment method and an expected cash flow (expected present value) method. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value methods to estimate the measurement basis to the methods discussed. The present value method used to estimate the measurement basis will depend on facts and circumstances specific to the asset or liability being measured (e.g., whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.</p>	IFRS 13.B12
Paragraph IG2 is IED.A44	<p><b><u>BC.1</u></b> What are the components of a PV measurement?</p> <p><b>IG2.</b> Present value (i.e., an application of the income approach) is a tool used to link future amounts (e.g., cash flows or values) to a present amount using a discount rate. A measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:</p> <ul style="list-style-type: none"> <li>a. An estimate of future cash flows for the asset or liability being measured.</li> <li>b. Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.</li> <li>c. The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or</li> </ul>	IFRS 13.B13

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p> durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (i.e., a risk-free interest rate).</p> <p>d. The price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium).</p> <p>e. Other factors that would be taken into account in the circumstances.</p> <p>a. For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk.</p>	
	<p><a href="#">BC.2</a> What should I take into consideration when using present value?</p>	
<p>Paragraph IG3 is IED.A45</p>	<p>IG3. Present value techniques differ in how they capture the elements in paragraph IG4. However, all the following general principles govern the application of any present value technique used to estimate the measurement basis:</p> <p>a. Cash flows and discount rates should reflect assumptions associated with the measurement basis being estimated (for example, a fair value measurement includes assumptions a market participant would use when pricing the asset or liability, while a current cost measurement includes entity specific assumptions when pricing the asset or liability).</p> <p>b. Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.</p> <p>c. To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (i.e., a discount rate adjustment technique). That same rate should not be used if using expected (i.e., probability-weighted) cash flows (i.e., an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.</p> <p>d. Assumptions about cash flows and discount rates</p>	<p>IFRS 13.B1 4</p>

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.</p> <p>e. Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.</p>	
	<i>Risk and Uncertainty</i>	
Paragraph IG4 is IED.A46	<p>IG4. Estimating a measurement basis using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.</p>	IFRS 13.B15
Paragraph IG5 is IED.A48	<p>IG5. Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:</p> <p>(a) The discount rate adjustment technique (see paragraphs IIG6–IIG10) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.</p> <p>(b) Method 1 of the expected present value technique (see paragraph IIG13) uses risk-adjusted expected cash flows and a risk-free rate.</p> <p>(c) Method 2 of the expected present value technique (see paragraph IIG14) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium. That rate is different from the rate used in the discount rate adjustment technique.</p>	IFRS 13.B17
	<i>Discount Rate Adjustment Technique</i>	
Paragraph IG6 is IED.A49	<p>IG6. The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (e.g., contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual,</p>	IFRS 13.B18



NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (i.e., a market rate of return).</p>	
Paragraph IG7 is IED.A50	<p>IG7. The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (e.g., whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (e.g., credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (i.e., using a 'build-up' approach).</p>	IFRS 13.B19
Paragraph IG8 is IED.A51	<p>IG8. To illustrate a build-up approach, assume that Asset A is a contractual right to receive CU800 in one year (i.e., there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:</p> <p>(a) Asset B is a contractual right to receive CU1,200 in one year and has a market price of CU1,083. Thus, the implied annual rate of return (i.e., a one-year market rate of return) is 10.8 per cent <math>[(CU1,200/CU1,083) - 1]</math>.</p> <p>(b) Asset C is a contractual right to receive CU700 in two years and has a market price of CU566. Thus, the implied annual rate of return (i.e., a two-year market rate of return) is 11.2 per cent <math>[(CU700/CU566)^{0.5} - 1]</math>.</p> <p>(c) All three assets are comparable with respect to risk (i.e., dispersion of possible pay-offs and credit).</p>	IFRS 13.B20
Paragraph IG9 is IED.A52	<p>IG9. On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (i.e., one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (CU800) and the one-year market rate derived from Asset B (10.8 per cent), the value of Asset A is CU722 <math>(CU800/1.108)</math>. Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be</p>	IFRS 13.B21

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.</p>	
Paragraph IG10 is IED.A53	<p>IG10. When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.</p>	IFRS 13.B22
	<i>Expected Present Value Technique</i>	
Paragraph IG11 is IED.A54	<p>IG11. The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (i.e., the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).</p>	IFRS 13.B23
Paragraph IG12 is IED.A55	<p>IG12. In making an investment decision, an entity would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:</p> <ul style="list-style-type: none"> <li>(a) Unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.</li> <li>(b) Systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.</li> </ul> <p>Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)</p>	IFRS 13.B24
Paragraph IG13 is IED.A56	<p>IG13. Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (i.e., market) risk by subtracting a cash risk premium (i.e., risk-adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined),</p>	IFRS 13.B25

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source															
	<p>adjusted for risk so that the entity is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of CU1,200 for a certain cash flow of CU1,000, the CU1,000 is the certainty equivalent of the CU1,200 (i.e., the CU200 would represent the cash risk premium). In that case the entity would be indifferent as to the asset held.</p>																
<p>Paragraph IG14 is IED.A57</p>	<p>IG14. In contrast, Method 2 of the expected present value technique adjusts for systematic (i.e., market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (i.e., an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.</p>	<p>IFRS 13.B2 6</p>															
<p>Paragraph IG15 is IED.A58</p>	<p>IG15. To illustrate Methods 1 and 2, assume that an asset has expected cash flows of CU780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.</p> <table border="1" data-bbox="509 1317 1262 1599"> <thead> <tr> <th>Possible cash flows</th><th>Probability</th><th>Probabili</th></tr> </thead> <tbody> <tr> <td>CU500</td><td>15%</td><td>CU75</td></tr> <tr> <td>CU800</td><td>60%</td><td>CU480</td></tr> <tr> <td>CU900</td><td>25%</td><td>CU225</td></tr> <tr> <td>Expected cash flows</td><td></td><td>CU780</td></tr> </tbody> </table>	Possible cash flows	Probability	Probabili	CU500	15%	CU75	CU800	60%	CU480	CU900	25%	CU225	Expected cash flows		CU780	<p>IFRS 13.B2 7</p>
Possible cash flows	Probability	Probabili															
CU500	15%	CU75															
CU800	60%	CU480															
CU900	25%	CU225															
Expected cash flows		CU780															
<p>Paragraph IG16 is IED.A59</p>	<p>IG16. In this simple illustration, the expected cash flows (CU780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances</p>	<p>IFRS 13.B2 8</p>															

NOTES	DRAFT IPSAS XX, <i>Measurement</i>	Original Source
	<p>occurring subsequently (e.g., changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.</p>	
<p>Paragraph IG17 is IED.A60</p>	<p>IG17. In theory, the present value of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:</p> <p>(a) Using Method 1, the expected cash flows are adjusted for systematic (i.e., market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (i.e., the cash risk premium of CU22) could be determined using the systematic risk premium of 3 per cent (CU780 – [CU780 × (1.05/1.08)]), which results in risk-adjusted expected cash flows of CU758 (CU780 – CU22). The CU758 is the certainty equivalent of CU780 and is discounted at the risk-free interest rate (5 per cent). The present value of the asset is CU722 (CU758/1.05).</p> <p>(b) Using Method 2, the expected cash flows are not adjusted for systematic (i.e., market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (i.e., the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value of the asset is CU722 (CU780/1.08).</p>	<p>IFRS 13.B29</p>
<p>Paragraph IG18 is IED.A61</p>	<p>IG18. When using an expected present value technique to estimate the measurement basis, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgements applied.</p>	<p>IFRS 13.B30</p>

## Addendum A – IFRS 13, Fair Value Measurement, Mapped to IPSAS

Topic	IFRS 13 Reference	ED Measurement Reference	Potentially to be incorporated into the following IPSAS
<b>Objective</b>	1	1	
	2	N/A	N/A, as IFRS 13.2 to 4 only provide a high level summary of the standard
	3	N/A	
	4	N/A	
<b>Scope</b>	5	3	
	6	4	
	7	N/A	N/A, as related to disclosures
	8	5	
<b>Definition of fair value</b>	9	6	
	10	N/A	N/A, as IFRS 13.10 only cross-references to application guidance
<b>The asset or liability</b>	11	7	
	12	8	
	13	9	
	14	10	
<b>The transaction</b>	15	C2	
	16	C3	
	17	C4	
	18	C5	
	19	C6	
	20	C7	
	21	C8	
<b>Market participants</b>	22	C9	
	23	C10	
<b>The price</b>	24	C11	
	25	C12	
	26	C13	
<b>Highest and best use for non-financial assets</b>	27	C14	
	28	C15	
	29	C16	
	30	C16	
<b>Valuation premise for non-financial assets</b>	31	C18	
	32	C19	
	33	N/A	N/A, as IFRS 13.33 only cross-references to application guidance
<b>Application to liabilities and an entity's own equity</b>	34	N/A	IPSAS 41
	35	N/A	IPSAS 41

<b>- General principles</b>	36	N/A	IPSAS 41
<b>Liabilities and equity instruments held by other parties as assets</b>	37	N/A	IPSAS 41
	38	N/A	IPSAS 41
	39	N/A	IPSAS 41
<b>Liabilities and equity instruments not held by other parties as assets</b>	40	N/A	IPSAS 41
	41	N/A	IPSAS 41
<b>Non-performance risk</b>	42	N/A	IPSAS 41
	43	N/A	IPSAS 41
	44	N/A	IPSAS 41
<b>Restriction preventing the transfer of a liability or own equity</b>	45	N/A	IPSAS 41
	46	N/A	IPSAS 41
<b>Financial liability with a demand feature</b>	47	N/A	IPSAS 41
<b>Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk</b>	48	N/A	IPSAS 41
	49	N/A	IPSAS 41
	50	N/A	IPSAS 41
	51	N/A	IPSAS 41
	52	N/A	IPSAS 41
<b>Exposure to market rates</b>	53	N/A	IPSAS 41
	54	N/A	IPSAS 41
	55	N/A	IPSAS 41
<b>Exposure to the credit risk of a particular counterparty</b>	56	N/A	IPSAS 41
<b>Fair value at initial recognition</b>	57	C21	
	58	C22	
	59	C23	
	60	C24	
<b>Measurement techniques</b>	61	C27	
	62	C28	
	63	C29	
	64	43	CORE
	65	44	CORE
	66	45	CORE
<b>Inputs to valuation techniques - General principles</b>	67	C43	
	68	C45	
	69	C46	
<b>Inputs based on bid and ask prices</b>	70	N/A	IPSAS 41
	71	N/A	IPSAS 41
<b>Fair value hierarchy</b>	72	C47	
	73	C48	
	74	C49	
	75	C50	
<b>Level 1 inputs</b>	76	C51	
	77	C52	

	78	C53	
	79	C54	
	80	C55	
Level 2 inputs	81	C56	
	82	C57	
	83	C58	
	84	C59	
	85	C61	
Level 3 inputs	86	C62	
	87	C63	
	88	C64	
	89	C76	
	90	C77	
Disclosure	91	N/A	Disclosure will be addressed on an IPSAS by IPSAS basis
	92	N/A	
	93	N/A	
	94	N/A	
	95	N/A	
	96	N/A	
	97	N/A	
	98	N/A	
	99	N/A	
Defined terms	Appendix A	6	
Application guidance (introduction)	B1	N/A	Introductory paragraph only
The fair value measurement approach	B2	A1	
Valuation premise for non-financial assets	B3	C20	
Fair value at initial recognition	B4	C25	
Measurement - Market approach	B5	46	
	B6	C30	
	B7	C31	
Cost approach	B8	47	
	B9	C33	
Income approach	B10	49	
	B11	C40	
Present value techniques	B12	C41	
The components of a present value measurement	B13	IG2	
The components of a present value measurement - General principles	B14	IG3	
Risk and uncertainty	B15	IG4	
	B16	C42	

	B17	IG5	
<b>Discount rate adjustment technique</b>	B18	IG6	
	B19	IG7	
	B20	IG8	
	B21	IG9	
	B22	IG10	
<b>Expected present value technique</b>	B23	IG11	
	B24	IG12	
	B25	IG13	
	B26	IG14	
	B27	IG15	
	B28	IG16	
	B29	IG17	
	B30	IG18	
<b>Applying present value techniques to liabilities and an entity's own equity instruments not held by other parties as assets</b>	B31	N/A	IPSAS 41
	B32	N/A	IPSAS 41
	B33	N/A	IPSAS 41
<b>Inputs to valuation techniques</b>	B34	C45	
<b>Fair value hierarchy - Level 2 inputs</b>	B35	C61	
<b>Level 3 inputs</b>	B36	C78	
<b>Measuring fair value when the volume of level of activity for an asset or a liability has significantly decreased</b>	B37	C65	
	B38	C66	
	B39	C67	
	B40	C68	
	B41	C69	
	B42	C70	
<b>Identifying transactions that are not orderly</b>	B43	C71	
	B44	C72	
<b>Using quoted prices provided by third parties</b>	B45	C73	
	B46	C74	
	B47	C75	
<b>Effective date and transition</b>	C1	58	
	C2	N/A	N/A, as IFRS 13.C2 to C5 deal with transitional provisions and consequential amendments
	C3	N/A	
	C4	N/A	
	C5	N/A	
<b>Amendments to other IFRSs</b>	Appendix D	N/A	



## Addendum B – Replacement Cost AG from IED, Mapped to ED

Topic	IED App D Reference	ED Measurement Reference	Notes
<b>Measurement</b>	D1	<a href="#">B1</a>	
<b>The Asset</b>	D2	<a href="#">7</a>	
	D3	<a href="#">7Error! Reference source not found.</a>	
	D4	<a href="#">B7</a>	
	D5	<a href="#">B8</a>	
	D6	<a href="#">B29</a>	
	D7	-	Specific application of replacement cost to componentization
	D8	-	
	D9	-	
	D10	-	
	D11	<a href="#">B15</a>	
	D12	<a href="#">B16</a>	
	D13	<a href="#">B13</a>	
	D14	<a href="#">B17</a>	
	D15	<a href="#">B27</a>	
	D16	-	Specific application of replacement cost to buildings
	D17	-	
	D18	-	
	D19	-	
	D20	-	
	D21	<a href="#">B15</a>	
	D22	<a href="#">B6</a>	
	D23	<a href="#">B10</a>	
	D24	<a href="#">B21</a>	
<b>Entity-Specific Value</b>	D25	-	Generic entity-specific guidance
	D26	<a href="#">B11</a>	
	D27	<a href="#">B14</a>	
<b>Measurement Techniques</b>	D28	<a href="#">B21</a>	
	D29	<a href="#">B25</a>	
	D30	C34 and <a href="#">B4</a>	
	D31	<a href="#">B4</a>	
	D32	<a href="#">B4</a>	
	D33	<a href="#">B4</a>	
	D34	<a href="#">B4</a>	
	D35	-	Specific to IPSAS 17
<b>Other Valuation Considerations</b>	D36	<a href="#">B5</a>	
	D37	<a href="#">B5</a>	
	D38	<a href="#">B5</a>	
	D39	<a href="#">B5</a>	
	D40	<a href="#">B5</a>	

	D41	<u>B5</u>	
	D42	<u>B5</u>	