

Meeting: IPSASB Consultative Advisory Group
Meeting Location: Toronto, Canada
Meeting Date: December 4, 2023

Agenda Item 6

For:
 Approval
 Discussion
 Information

MEASUREMENT APPLICATION PHASE

Project objective	The objective is to evaluate the applicability of current operational value in those IPSAS not explicitly considered in the first phase of the Measurement project.	
Meeting objectives	<i>Topic</i>	<i>Agenda Item</i>
Discussion Items	Applicability of Current Operational Value across IPSAS	6.1

Applicability of Current Operational Value across IPSAS

Background

Scope of IPSAS 46, Measurement.

1. The objective of IPSAS 46, published in May 2023, is to support the consistent application of measurement bases across the suite of IPSAS. During the development of IPSAS 46, the IPSASB decided that:
 - (a) Other IPSAS should identify which measurement basis should be applied (for example, IPSAS 45, *Property, Plant, and Equipment*, identifies historical cost, current operational value, and fair value as permitted measurement bases); and
 - (b) IPSAS 46 should provide the definitions and generic application guidance for the measurement bases commonly used across the suite of IPSAS, which are:
 - (i) Historical cost;
 - (ii) Current operational value (COV);
 - (iii) Cost of fulfillment; and
 - (iv) Fair value (FV).
2. As part of the project's April 2019 consultation paper, the IPSASB decided the project would aim to consolidate measurement guidance from across the IPSAS, and update measurement principles for consistency, however, the project would not make significant changes to measurement guidance in individual IPSAS. For example, the measurement project would aim to use the concept of historical cost consistently across the IPSAS but would not add/remove uses of it in individual IPSAS.

Why Current Operational Value was Developed.

3. The IPSASB developed COV, to address constituents' concerns received in the April 2019 Measurement Consultation Paper (CP), that fair value is difficult and inappropriate to apply to assets held for their operational capacity, as is often the case in the public sector because the following concepts generally are not applicable:
 - (a) Highest and best use; and
 - (b) Maximizing the use of market participant data.
4. One example often referred to was a school located in a metropolitan center, where the 'highest and best use' differs from its existing use. For example, a building operated as a school may have the highest and best economic use as an office building for the generation of economic benefits (e.g., rental income). The concern from the public sector was that measuring the school at fair value would not appropriately reflect the value of the asset to the public sector entity (i.e., in many cases result in an overstatement in the Statement of Financial Position).
5. In response, the IPSASB developed current operational value, a public sector specific current value measurement basis, for assets held for their operational capacity. The objective of COV is to estimate the amount an entity would pay for the remaining service potential of an asset at the measurement date. To derive COV an entity must determine:
 - (a) The amount the entity would pay;

- (b) The remaining service potential of the asset (i.e., current condition of the asset); and
- (c) The existing use and location of the asset.

A key differentiating factor between fair value and COV is the emphasis COV places on the existing use of an asset, as opposed to the ‘highest and best use’ emphasis fair value requires.

Scope of Measurement Application Project

- 6. COV was developed in the context of assets within the scope of the Property, Plant, and Equipment, pronouncement. As noted in paragraphs 3-5, COV was developed to address challenges in measuring the current value of assets, such as schools, held for their operating capacity.
- 7. In December 2022, as the IPSASB finalized the principles related to COV, it decided to add a second phase to the Measurement project to evaluate the applicability of COV more broadly across IPSAS¹.

Issue – Conceptual and Practical Criteria on the Analysis of COV Applicability in IPSAS

- 8. The purpose of the second phase of the measurement project is to determine whether the addition of COV to specific IPSAS would provide more relevant information when presenting the current value of the asset.
- 9. During the first nine months of 2023, the IPSASB analyzed the applicability of COV in certain IPSAS². This analysis focused primarily on whether COV was conceptually consistent with the measurement objective of the IPSASB’s Conceptual Framework (CP). For example, whether the asset within the scope of a particular IPSAS is held for its operational capacity and measuring it at current operational value would most fairly reflect the transaction in a manner that is useful in holding the entity to account, and for decision-making purposes.
- 10. The IPSASB’s evaluation of the conceptual applicability of COV in IPSAS considered whether:
 - (a) **The asset is a resource with a right to service potential held for its operational capacity.** COV was specifically developed for public sector assets that the entity holds for their operational capacity, as constituents noted that ‘highest and best use’ and ‘maximizing the use of market participant data’ FV concepts were not applicable to such assets, for example, the majority of assets in the scope of IPSAS 45; and
 - (b) **COV’s principles most fairly reflect the transaction.** This is because COV provides an entity specific measurement of an asset, reflecting an entry value, held for its operational capacity in its existing use, location, and current condition.
- 11. From a conceptual perspective, a conclusion that an asset is a resource with a right to service potential, held for its operational capacity, and where COV principles most fairly reflect the transaction supports the addition of COV to a specific IPSAS. However, practically, adding COV as a second current value measurement basis, or replacing the existing measurement basis, adds complexity in

¹ The IPSASB decided the relevant IPSAS in scope of the Measurement Application phase in the March 2023 IPSASB meeting – see [minutes](#).

² During the June and September 2023 meetings, the IPSASB agreed:

- Current operational value is not an applicable measurement basis for IPSAS 16, *Investment Property*; IPSAS 27, *Agriculture*; IPSAS 36, *Investments in Associates and Joint Ventures*; and IPSAS 41, *Financial Instruments*;
- Current operational value is applicable to IPSAS 32, *Service Concession Arrangements: Grantor*; and
- The applicability of COV should be retained in the individual IPSAS as opposed to being included in IPSAS 37, *Joint Arrangements* and IPSAS 40, *Public Sector Combinations*.

the application of any IPSAS and may not outweigh the conceptual benefits when the application of fair value compared to COV is insignificant (i.e., FV approximates COV).

Analysis Going Forward

12. In December 2023 and March 2024, the IPSASB begins its analysis of IPSAS with more complex transactions, thus further consideration on how to balance conceptual and practical criteria is needed.
13. The benefits of a conceptual and practical analysis can be summarized:
 - (a) The benefit of **conceptual analysis** is that the addition of COV, where appropriate, ensures consistency of measurement principles and derivation of the accounting estimate across IPSAS.
 - (b) The benefit of a **practical approach** is that it will eliminate the complexity in the application of any IPSAS added by requiring an evaluation of why the entity holds the asset ahead of measuring it. This is a particularly relevant criterion when the introduction of COV in the IPSAS is not expected to yield more relevant measurement information, for example, when the fair value and COV of an asset are expected to be similar or the same.
14. The IPSASB developed COV to address a public sector specific need for a current value measurement basis for assets that the entity holds primarily for its operational capacity. As the IPSASB starts the evaluation of more complex IPSAS balancing conceptual with practical criteria becomes more predominant to ensure the decision to introduce COV is anchored in improving the measurement information for accountability and decision-making purposes.

Question for the CAG:

When evaluating the applicability of COV across IPSAS, what factors should the IPSASB prioritize when taking into account the broader public interest?