Impact of the Conceptual Framework on IPSASs – Agenda Item 6.2.5

Gwenda Jensen

IPSASB Meeting
March 6–9, 2018
New York, USA
Aim of session

Identify issues for development of ED sections on subsequent measurement

1. *Staff presentation*: Information on measurement in IPSASs, with examples of IPSASs reviewed using Review Approach

2. *IPSASB discussion*:
   - Conceptual Framework impact on IPSAS Measurement
   - Principles for ED sections on subsequent measurement
Overview

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

40 IPSAS
5 Replaced (or soon to be replaced)
35 IPSASs apply going forward (+ Social Benefits)
13 Without asset / liability measurement requirements
22 IPSASs with measurement requirements
6 Impacted by active projects
16 IPSASs for review
1. Overview of IPSASs and Measurement: Active Projects

- Social Benefits (ED)
- Leases (ED)
- Revenue (CP)
- Expenses (CP)
- Financial Instruments (ED) & Public Sector Financial Instruments (CP)
- Heritage and Infrastructure: IPSAS 17, PP&E
1. Overview of IPSASs and Measurement

16 IPSASs for review

Also monitor active projects & link to IPSAS, Measurement:

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

13 Revise measurement references in other IPSASs

36 IPSASs to review and revise
Review approach has three components:

1. Rebuttable presumption that IPSAS measurement needs to change, to achieve consistency with Conceptual Framework (CF)

2. References to fair value:
   - If entry value then IFRS 13 fair value is not appropriate
   - If exit value then apply IFRS 13 fair value definition

3. Consider whether values are entity-specific or non-entity specific
2. (a) Review Approach—Conceptual Framework (CF) Consistency

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

- Qualitative characteristics: Relevance, representational faithfulness, understandability, timeliness, comparability & verifiability.

- Constraints: Materiality, cost-benefit & balance between the qualitative characteristics.
2. (a) Review Approach—CF Consistency: Available Measurement Bases

- **Assets**
  - Historical cost
  - Market value
  - Replacement cost
  - Net selling price
  - Value in use

- **Liabilities**
  - Historical cost
  - Market value
  - Cost of fulfillment
  - Cost of release
  - Assumption price
2. (a) CF Consistency: Fair value as a measurement basis

- CF’s “market value” is current IPSAS “fair value”:
  - Amount for which an asset could be exchanged (or liability settled between knowledgeable, willing parties in arm’s length transaction)

- IPSASB rejected IASB’s fair value (IFRS 13, *Fair Value Measurement*) because:
  - Limited relevance in public sector
  - Treats measurement bases as “measurement techniques”
2. (a) Fair value as measurement basis: CF Basis for Conclusions

- Fair value inappropriate for specialized assets (if entry value):
  - Many public sector assets are specialized
  - Significant differences between entry and exit values
- Fair value (exit price):
  - Not relevant if asset’s future services/benefits worth more than exit value
  - Net selling price is better measure if asset will be sold (does not assume open, active and orderly market)
IPSASB’s September 2017 decision: *Fair value still relevant in some cases*

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

- An entry value, consider:
  - Market value, if non-specialized asset
  - Replacement cost, if specialized
- An exit value, apply IFRS 13 fair value definition
2.(b) Review Approach—Entry or exit value, entity specific values

- **Entry values** reflect
  - Cost of purchase for assets
  - Liabilities: Relates to transaction under which an obligation is received or the amount that an entity would accept to assume a liability. [CF 7.8-7.9]

- **Exit values** reflect:
  - Economic benefits from sale of asset and amount derived from use
  - Liabilities: amount to fulfil obligation or amount to release entity from an obligation

- **Entity specific values**: Include entity specific costs (e.g. adaptation of asset or transaction costs)
### 2.(b) Review Approach—Entry or exit value

<table>
<thead>
<tr>
<th>Measurement Basis (Assets)</th>
<th>Entry or Exit?</th>
<th>Observable in Market?</th>
<th>Entity Specific?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical cost</td>
<td>Entry</td>
<td>Generally, yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Market value in open, active and orderly market</td>
<td>Entry or exit</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Market value in inactive market</td>
<td>Exit</td>
<td>Depends</td>
<td>Depends</td>
</tr>
<tr>
<td>Replacement cost</td>
<td>Entry</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Net selling price</td>
<td>Exit</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Value in use</td>
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<td>No</td>
<td>Yes</td>
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<td>Assumption price</td>
<td>Entry</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
3. IPSASs Examples for IPSASB Discussion

<table>
<thead>
<tr>
<th>(a) Assets <em>(Main focus)</em></th>
<th>(b) Liabilities</th>
<th>(c) Assets and Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>12, Inventories</td>
<td>19, Provisions &amp; Contingencies</td>
<td>40, Public Sector Combinations</td>
</tr>
<tr>
<td>16, Investment Properties</td>
<td>39, Employee Benefits</td>
<td></td>
</tr>
<tr>
<td>17, Property, Plant &amp; Equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27, Agriculture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31, Intangible Assets</td>
<td></td>
<td></td>
</tr>
</tbody>
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### 3(a) Overview of Asset IPSASs: Initial Measurement

Currently

<table>
<thead>
<tr>
<th>Assets</th>
<th>Initial measurement</th>
<th>Transaction Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>12, <em>Inventories</em></td>
<td>Cost</td>
<td>Capitalize</td>
</tr>
<tr>
<td>16, <em>Investment Properties</em></td>
<td>Cost</td>
<td>Capitalize</td>
</tr>
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<td>17, <em>PP&amp;E</em></td>
<td>Cost</td>
<td>Capitalize</td>
</tr>
<tr>
<td>27, <em>Agriculture</em></td>
<td>Fair value less costs to market</td>
<td>Less costs to market</td>
</tr>
<tr>
<td>31, <em>Intangible Assets</em></td>
<td>Cost</td>
<td>Capitalize</td>
</tr>
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3(a) Overview of Asset IPSASs: Subsequent Measurement Currently

12, Inventories: Lower of cost and net realizable value

17, PP&E: Historical cost or revaluation (fair value)

16, Investment Properties: Historical cost or revaluation (fair value)

27, Agriculture: Fair value less costs to market

31, Intangible Assets: Historical cost or revaluation (fair value)

All five IPSASs have public sector specific (PSS) changes
3(a) Overview of Asset IPSASs: Assets held for service potential or for economic benefits

Held for **service potential** and/or economic benefits:
- Inventories (e.g. medicine, food, booklets)
- PP&E (e.g. government buildings, infrastructure)
- Intangibles (e.g. information technology for government services)

Only held for economic benefits?
- Investment Properties: **“By definition”**
- Biological assets or agricultural produce? Excludes biological assets held for supply of services. **But applies when held for distribution at no charge.**
3(a) Overview of Asset IPSASs: Public sector specific (PSS) changes

Asset standards have PSS changes to address:

1. Initial measurement—situations where:
   a) Assets acquired through non-exchange transactions (Use of deemed cost)
   b) Cost information is missing (e.g. IPSAS 33, First Time Adoption)

2. Subsequent measurement of non-cash generating (N-CG) assets
   a) Revaluations
   b) Impairment (IPSAS 21, Impairment of N-CG Assets)

3. PSS categories: Excluded or special treatment (e.g. IPSAS 19 excludes social benefits, IPSAS 17 has options for heritage assets)
3(a) Overview: Conceptual Framework Measurement Bases that could apply

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

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

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

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

31, *Intangible Assets*: Historical cost, market value (entry), replacement cost
3(b) IPSAS 12, *Inventories*: Current situation

- **General rule:**
  - Initial measurement at cost
  - Subsequent measurement at *lower of cost and net realizable value*

- **Where inventories:**
  - Acquired through non-exchange transaction: Initial measurement at *fair value* *(Staff view: Entry value. Replace with market value?)*
  - Distributed at no or nominal cost: Subsequent measurement at *lower of cost and current replacement cost*
3(b) IPSAS 12, *Inventories*: Current situation

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

- Points to consider:
  - Applicable measurement bases
  - Measurement basis to replace “fair value”
  - Meaning of “replacement cost” for inventories
  - Significance of “service potential inventory” versus “economic benefits inventory”
  - Relevance of specialized versus non-specialized
3(b) IPSAS 16, Investment Properties: Current situation

• General:
  – Initial measurement at cost. Includes transaction costs (entry value)
  – Subsequent measurement:
    • Fair value model Staff view exit value. Replace with IFRS 13 fair value?
    • Cost model (apply cost model in IPSAS 17, PP&E)

• Investment properties acquired in non-exchange transaction:
  – Initial measurement at fair value Staff view entry value. Replace with market value?)
3(b) IPSAS 16, *Investment Properties: IPSASB views?*

- Points to consider:
  - Applicable measurement bases
  - Measurement bases to replace “fair value”
    - Initial measurement (deemed cost)
    - Subsequent measurement, when using the fair value model
  - Investment properties as always about economic benefits
  - Relevance of specialized versus non-specialized
3(b) IPSAS 17, Property, Plant & Equipment (PP&E): Current situation

- General:
  - Initial measurement at cost. Includes transaction costs (entry value)
  - Subsequent measurement:
    - Cost model (*Historical cost*)
    - Revaluation model: Fair value less depreciation & impairment (entry)
- PP&E acquired in non-exchange transaction:
  - Initial measurement at fair value *Staff view entry value. Replace with market value or replacement cost?*)
3(b) IPSAS 16, *Property, Plant & Equipment*: IPSASB views?

- Points to consider:
  - Applicable measurement bases
  - Measurement bases to replace “fair value”:
    - Initial measurement (deemed cost)
    - Subsequent measurement, when using revaluation model
  - IPSAS 17 discusses how to determine fair value.
    - Market value, replacement cost (DRC), reproduction cost, service units
    - Consider availability of market values, whether asset is specialized
3(b) IPSAS 27, *Agriculture*: Current situation

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

- **Staff view: Exit value**
3(b) IPSAS 27, *Agriculture*: IPSASB views?

- Points to consider:
  - Meaning of “fair value less costs to sell”
  - Measurement bases to replace “fair value less costs to sell”:
    - Net selling price (Conceptual Framework)
    - Fair value (IFRS 13)
3(b) IPSAS 31, *Intangibles*: Current situation

- **General:**
  - Initial measurement at cost. Includes transaction costs (*entry value*)
  - Subsequent measurement:
    - Cost model (*Historical cost*)
    - Revaluation model: Fair value less amortization (*entry*) Fair value determined by reference to an active market (*market value?*)
- Intangibles acquired in non-exchange transaction: Initial measurement at fair value *Staff view entry value. Replace with market value or replacement cost?*
3(b) IPSAS 31, *Intangibles*: IPSASB views?

- **Points to consider:**
  - Applicable measurement bases
  - Measurement bases to replace “fair value”:
    - Initial measurement (deemed cost)
    - Subsequent measurement, when using revaluation model
3(b) IPSAS 19, *Provisions and Contingencies*: Current situation / IPSASB views?

- Measurement of provisions: Best estimate of the expenditure required to settle the present obligation at the reporting date.

- Compare to Conceptual Framework’s “cost of fulfillment”:

  *The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner*
3(b) IPSAS 39, *Employee Benefits*: Current situation / IPSASB views?

- **Liabilities**: Present value of obligations (e.g. defined benefit obligation “present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods)

- **Assets**: Fair value of plan assets

• **Compare to Conceptual Framework’s cost of fulfillment**: 
  
  *The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.*
3(b) IPSAS 40, *Combinations*: Current situation / IPSASB views?

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

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