Agenda Item 9: Public Sector Measurement

David Watkins, Gwenda Jensen and Dave Warren
IPSASB Meeting
December 4–7, 2018
Kuala Lumpur, Malaysia
Overview

1. Revisions to ED, Measurement
2. Cost of fulfillment issues
   – Review
   – Principles
   – Discount rate
   – Process
3. Measurement of Assets Held for Sale or Disposal
4. Revisions to CP, Public Sector Measurement
Introduction

Project management:
• Instructions (agenda paper 9.1.1)
• Decisions (agenda paper 9.1.2)
• Project road map (agenda paper 9.1.3)
IPSAS, Measurement, and other IPSASs

Objective & Scope
- Definitions
- Measurement Bases (What)
- Basis for Conclusions (Why)

Application Guidance
- Appendices (How)
  - Cost of fulfillment
  - Fair value
  - Historical cost
  - Replacement cost
  - Net Selling price

Other IPSAS
- Which basis?
  - IPSAS 17
  - IPSAS 31
  - IPSAS 41
Combined CP and ED: Process

- Consultation Paper and ED, Measurement
- ED, Measurement
- Consultation Paper

- ED, Consequential Amendments and IPSAS, Measurement [Draft]
- IPSAS, Measurement
- ED, Consequential Amendments

- Amendments to other IPSASs and IPSAS, Measurement
- IPSAS, Measurement
- Amendments to other IPSASs
1 Revisions to ED, Measurement

- What are IPSASB’s views on draft ED, Measurement
- Agenda paper 9.2.1:
  - Identifies points for the IPSASB to consider during its review of the draft ED
  - Appendix 1 has an overview of revisions to ED since September
- Agenda paper 9.3.1 has the draft ED for review
1 ED, *Measurement* – Key revisions

<table>
<thead>
<tr>
<th>Headings</th>
<th>Revisions</th>
<th>Further comment:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Request for comments</td>
<td>None</td>
<td>Outstanding—PVs and SMCs</td>
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<tr>
<td>Contents page</td>
<td>New</td>
<td>Reflects September decisions on ED’s content.</td>
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<tr>
<td>Measurement</td>
<td>New</td>
<td>Explanatory text added - based on Conceptual Framework</td>
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<tr>
<td>Disclosures</td>
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<td>Text refers to disclosures in application guidance appendices</td>
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## 1 ED, *Measurement* – Key revisions

<table>
<thead>
<tr>
<th>Revisions</th>
<th>Further comment—</th>
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<tbody>
<tr>
<td><strong>A Cost of fulfillment</strong></td>
<td>New</td>
</tr>
<tr>
<td></td>
<td>See 9.2.2-9.2.5</td>
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<tr>
<td><strong>B Fair value</strong></td>
<td>Revised</td>
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<tr>
<td></td>
<td>Text from IFRS 13, <em>Fair Value Measurement</em></td>
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<tr>
<td><strong>C Historical cost</strong></td>
<td>New</td>
</tr>
<tr>
<td></td>
<td>Guidance reflects IPSAS approach to generic issues</td>
</tr>
<tr>
<td><strong>D Replacement cost</strong></td>
<td>New</td>
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<tr>
<td></td>
<td>Guidance based on IPSAS 17, UK Treasury website, &amp; international valuation standards</td>
</tr>
<tr>
<td><strong>Basis for Conclusions</strong></td>
<td>New sections</td>
</tr>
<tr>
<td></td>
<td>(1) Relationship between ED &amp; other IPSASs (2) fair value application guidance</td>
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1 Decisions required

The IPSASB is asked to

• Carry out a page-by-page review of the Draft ED, and

• Identify revisions necessary to prepare the ED for approval
Agenda Item 9: Public Sector Measurement – Cost of Fulfillment

Dave Warren, Manager, Standards Development and Technical Projects

David Watkins, Task Force Chair
### Process

- Developed a definition and principles for the cost of fulfillment
- Evaluated the principles developed against transactions a cost of fulfillment measurement basis could be applied to
- Developed guidance
The cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Costs only include the future outflows of resources the entity expects to incur to satisfy the obligation (no transaction costs).
Does the IPSASB agree the cost should only include the future outflows of resources the entity expects to incur to satisfy the obligation?
The cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

The obligation will be fulfilled by the entity in the normal course of operations (under the existing terms of the arrangement and with the current counterparty).
Definition of Cost of Fulfillment (4/10)

Does the IPSASB agree the obligation will be fulfilled by the entity in the normal course of operations?
The cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

The cost of fulfillment measurement is a liability measurement basis that can relate to a stand-alone liability, or a group of liabilities.
Does the IPSASB agree the cost of fulfillment measurement is a liability measurement basis?
The cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

The entity must have the ability to access the settlement method that results in the obligation being settled in the least costly manner at the expected settlement date.
Definition of Cost of Fulfillment (8/10)

Does the IPSASB agree the entity must have the ability to access the settlement method that results in the obligation being settled in the least costly manner at the expected settlement date?
The cost of fulfillment is the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Entity specific value (i.e., the entity will fulfill its own obligation and should measure the liability accordingly)
Does the IPSASB agree cost of fulfillment is an entity specific measurement basis that maximizes the use of observable inputs where available?
Discount Rate (1/2)

Discount Rate

- Entity’s incremental rate of borrowing: The interest rate the entity would have incurred to borrow, over a similar term and with similar security for the borrowing, the funds necessary to settle the obligation.
- Market Rate: Observable rates for comparable liabilities that are traded in an active market.
Discount Rate (2/2)

Does the IPSASB agree a market rate should be used to discount future outflows of resources when measuring the cost of fulfillment?
Next Steps

Q1 2018
• Incorporate IPSASB comments into CoF appendix

March 12-15, 2019
• Present revised draft of appendix to IPSASB for approval

Q2 2019
• Finalize ED/CP for public exposure
3 Measurement of assets (sale or disposal)

Does the IPSASB agree that the measurement of assets held for sale or disposal should be addressed through a separate project, rather than an appendix in ED, *Measurement*?
3 Measurement of assets (sale or disposal)


2. Prevalence of IFRS 5 transactions? *Issue relevant to public sector. (Evidence on prevalence unavailable)*

3. Measurement bases for public sector: *Identify circumstances as first step. Conceptual Framework’s net selling price likely to be appropriate. (IFRS 5: “lower of carrying amount and fair value less costs to sell”)*

4. Relevance of IFRS 5 disclosures? *Relevant if IPSASB decides to take same approach as in IFRS 5*
3 Decision required

The IPSASB is invited to agree with the recommendation that:

• The measurement of assets held for sale or disposal be addressed through a separate IPSASB project, rather than through development of an appendix in ED, *Measurement*
4 Revisions to CP, *Public Sector Measurement*

- What are IPSASB’s views on draft CP, *Public Sector Measurement*
- Agenda paper 9.2.1:
  - Identifies points for the IPSASB to consider during its review of the draft CP
  - Appendix 2 has an overview of revisions to the CP since September
- Agenda paper 9.3.1 has the draft CP for review
IPSAS, *Measurement*, and other IPSASs

- **Objective & Scope**
- **Definitions**
- **Measurement Bases** *(What)*
- **Basis for Conclusions** *(Why)*

**Application Guidance Appendices** *(How)*
- Cost of fulfillment
- Fair value
- Historical cost
- Replacement cost
- Net Selling price

**Other IPSAS**
- Which basis?
  - IPSAS 17
  - IPSAS 31
  - IPSAS 41
### 4. CP, *Public Sector Measurement* – Key revisions

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<tr>
<th>Section</th>
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<td>Contents page</td>
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<tr>
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<tr>
<td>6, Measurement: Liabilities</td>
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<td>New flow chart &amp; explanation</td>
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4 Decisions required

The IPSASB is asked to

• Carry out a page-by-page review of the Draft CP, and

• Identify revisions necessary to prepare the CP for approval
Project – Decisions, Instructions and Next Steps

• Summary of:
  – Decisions
  – Instructions
  – Next steps