

## **Agenda Item 6C: Conceptual Framework: Measurement**

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IPSASB Meeting

December 2-5 2013

Ottawa, Canada

# Objectives of Agenda Item

**Consider** and **provide** directions on key issues identified by Staff; and  
**Review** a first draft of the final chapter on Measurement and **provide** directions for further

## Material(s) Presented

- Agenda Item 6C.1 Issues Paper
- Agenda Item 6C.2a First Draft of Final Chapter, *Measurement (Mark-up)*
- Agenda Item 6C.2b First Draft of Final Chapter, *Measurement (Clean)*
- Agenda Item 6C.3 Draft Minutes from September Meeting

## Background (paras. 2 & 3)

- CF–ED3 issued: November 2013
- Consultation period open until April 30<sup>th</sup> 2014
  - 39 responses
- September Meeting:
  - Consideration & rejection of measurement objective based on ideal concept of capital
  - Direction to include measurement objective virtually same as that in Alternative View
  - Fair Value not included as measurement basis

## Issues Identified (para. 4)

- Definition of Historical Cost;
- Paragraphs on Suitability of Specific Measurement Bases;
- Symbolic or Nominal Values;
- Relocation of Material from Section of CF–ED3 on the Fair Value Model;
- Net Selling Price
- Other Issues
  - Valuation of Assets on Standalone Basis or Basis that they will be used in conjunction with other assets/liabilities (Unit of Account);
  - Income-based Present Value Valuation Approaches; and
  - Other Cash-Flow-Based Measurements.

## Historical Cost (1) (paras. 5 & 6)

- Historical cost (HC) not defined in CF-ED3
  - Inconsistent with approach for other measurement bases
- Proposed definition for an asset
  - “The amount of cash or cash equivalents paid, or the market value of the other consideration, given to acquire an asset at the time of its acquisition or construction
  - Same as definition in current literature except for reference to “market value” rather than “fair value”

## Historical Cost (2) (para. 7)

- Proposed definition of HC for a liability:
  - “The amount of cash or cash equivalents received, or the market value of the other consideration, in the transaction under which the obligation has been assumed.”

*Matters for Consideration: (i) Should Historical Cost be defined and, if so, (ii) are proposed definitions appropriate?*

## Paragraphs on Suitability of Specific Measurement Basis (para. 8)

- Sub-sections on suitability of measurement basis for HC & current value measurement bases

*TBG: Are these paragraphs necessary now that measurement objective included?*

*Staff View: (i) no need for title (ii) some material too discursive, but some contain valuable material, so review in page-by-page*

## Symbolic or Nominal Values (paras. 9 & 10)

- Concern at September meeting that “symbolic value” not included as measurement basis
  - Used to recognize certain items where not possible to obtain valuation or accounting policy not to measure
  - Typically used for heritage assets
- Direction to include rationale for non-inclusion in Basis for Conclusions
- Paragraphs BC38 and BC39 inserted
  - Symbolic values do not meet measurement objectives or QCs

*Matter for consideration: Are paras. 3.17 and 3.18 appropriate?*



## Relocation of Material on Fair Value Model (paras.11 & 12)

- Decision at September meeting to delete section 4 in CF–ED3 but relocate some of material
- Paragraphs 3.17 & 3.18 relocated

*TBG Member View: Too detailed and low level*

*Staff View: Paragraph 3.17 too detailed but 3.18 contains brief but useful reference to use of cash flow estimation to obtain market value so retain*

*Matter for Consideration: (i) Do you agree to delete para.3.17 & (ii) should para. 3.18 be retained?*

## Net Selling Price (paras. 13 and 14)

- Para. 3.44 inserted to indicate that NSP meets measurement objective when entity contractually obligated to sell asset at below market value
- At September meeting Staff asked to consider case where costs of sale > proceeds of sale
  - Staff Views: 1. Do not present asset at negative value, but there may be possibility of a liability from an onerous contract
    - 2. Value in use may be more appropriate measurement basis
    - 3. No need to include discussion in Basis for Conclusions

*Matter for consideration: Do you agree with Staff Views?*

## Structure of Liabilities Section (para.15)

- Section 4: *Measurement Bases for Liabilities* does not have same structure as Section 3: *Measurement Bases for Assets*
  - *Does not include sections on suitability, operational capacity, financial capacity and cost of services*

*TBG Member View: Should structure be the same?*

*Staff View: Such an approach likely to be repetitive.*

*Matter for Consideration: Should structure of section 4 be modified?*

## Other Issues (1): (i) Unit of Account, (ii) Income-Based Present Value Valuations (paras. 16-19)

- Unit of Account
  - Insertion of paragraph 2.8
- Income-Based Present Value Valuations
  - Paragraph 3.18 refers to estimation technique involving conversion of cash flows to single current discounted amount in context of market value where market inactive or otherwise not open or orderly

*Matter for Consideration: Are the references in paragraph 2.8 and 3.18 adequate?*

## Other Issues (2): (iii) Other Cash-Flow-Based Measurements (Paras.20-21)

- Involve estimation of future cash flows, but no objective to estimate market value or fair value
- Identified as one of three categories of measurements in IASB Discussion Paper
- Areas where IPSASB has current standards
  - Provisions, Liabilities for Post-Employment Benefits, Net Realizable Value of Inventories & Impairment of Cash-Generating Assets
- Staff View revised
  - Addressed in other measurement bases, esp. value in use, cost of fulfillment

*Matter for Consideration: Do you agree that no need to identify “other cash-flow-based measures as separate measurement category?”*

## Draft Final Chapter (Agenda Item 6.c2a)

- Page-by-page Review



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