

Public Sector Measurement—Education Session

Impact of the Conceptual Framework on
IPSASs – Agenda Item 6.2.5

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IPSASB Meeting

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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

2. Review Approach

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)

2(a) Review Approach: “Fair Value” Equivalents

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

Measurement Basis (Assets)	Entry or Exit?	Observable in Market?	Entity Specific?
Historical cost	Entry	Generally, yes	Yes
Market value in open, active and orderly market	Entry or exit	Yes	No
Market value in inactive market	Exit	Depends	Depends
Replacement cost	Entry	Yes	Yes
Net selling price	Exit	Yes	Yes
Value in use	Exit	No	Yes

2.(b) Review Approach—Entry or exit value

Measurement Basis (Liabilities)	Entry or Exit	Observable?	Entity Specific?
Historical cost	Entry	Generally, yes	Yes
Market value in open, active and orderly market	Entry or exit	Yes	No
Market value in inactive market	Exit	Depends	Depends
Cost of fulfillment	Exit	No	Yes
Cost of release	Exit	Yes	Yes
Assumption price	Entry	Yes	Yes

3. IPSASs Examples for IPSASB Discussion

(a) Assets (<i>Main focus</i>)	(b) Liabilities	(c) Assets and Liabilities
12, Inventories 16, Investment Properties 17, Property, Plant & Equipment 27, Agriculture 31, Intangible Assets	19, Provisions & Contingencies 39, Employee Benefits	40, Public Sector Combinations

3(a) Overview of Asset IPSASs: Initial Measurement Currently

Assets	Initial measurement	Transaction Costs
12, <i>Inventories</i>	Cost	Capitalize
16, <i>Investment Properties</i>	Cost	Capitalize
17, <i>PP&E</i>	Cost	Capitalize
27, <i>Agriculture</i>	Fair value less costs to market	Less costs to market
31, <i>Intangible Assets</i>	Cost	Capitalize

3(a) Overview of Asset IPSASs: Subsequent Measurement Currently

12, <i>Inventories</i> :	Lower of cost and net realizable value
17, <i>PP&E</i> :	Historical cost or revaluation (fair value)
16, <i>Investment Properties</i> :	Historical cost or revaluation (fair value)
27, <i>Agriculture</i> :	Fair value less costs to market
31, <i>Intangible Assets</i> :	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