



Public Sector Measurement

Gwenda Jensen and John Stanford

IPSASB Meeting

March 6–9, 2018

New York, USA

Overview

Introduction

1. ED, Objective, scope and definitions
2. ED, Initial measurement, transaction costs & borrowing costs
3. CP Chapter 1, *Introduction*, & Chapter 2, *Conceptual Framework and Measurement*
4. CP Chapter 3, *Borrowing Costs*

Introduction

- Project management:
 - Instructions (agenda paper 6.1.1)
 - Decisions (agenda paper 6.1.2)
 - Project road map (agenda paper 6.1.3)

1. ED sections: Objective, Scope and Definitions

- Aim: Approve ED sections
- Agenda paper 6.3.5 has ED XX, *Measurement*:
 - Objective — paragraph 1
 - Scope — paragraph 2
 - Definitions — paragraph 3
- Consultation Paper (CP), *Public Sector Measurement*, will discuss issues to explain conclusions (as appropriate)

1. ED sections: Objective

“The objective of this [draft] Standard is to establish principles for the measurement of assets and liabilities and identify measurement-related disclosures for financial reporting purposes.”

- A very concise objective; too concise?
- Compare with the examples in [agenda paper 6.3.1](#)
- *Issue*: Should it refer to revenue and expenses as well?

1. ED sections: Scope

“An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in measuring assets and liabilities.”

- Note:
 - No exclusions
 - The Standard will refer to other IPSASs where necessary (e.g. the two Impairment IPSASs) and refer to IFRS 13, *Fair Value Measurement* if that measurement basis applies

1. ED sections: Definitions

- See paragraph 3 in ED, *Measurement*, which is a short, initial list that addresses:
 - Measurement bases; and
 - Definitions relevant to March topics (e.g. borrowing costs)
- [Agenda paper 6.3.2](#) has long list for reference; shaded definitions are in the ED
- Further definitions will be added as ED sections developed

1. Correction to “transaction costs”

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Staff comment:

- The above definition is adapted from a definition in IPSAS
- Agenda paper 6.3.5 (ED-XX) has the IFRS 13 definition, which focuses on transaction costs related to sale of an asset (transfer of a liability) i.e. the situation for an exit value

1. ED sections: Definitions

- Definition of “fair value” is from IFRS 13
- Other definitions for measurement bases are from Conceptual Framework
- Location of definitions:
 - Standard location for definitions in an IPSAS
 - Final list of definitions may be long: Consider Appendix

1. ED sections: Definitions

- How to include IFRS 13 content in ED, *Measurement?*
 - Refer to IFRS 13 (*Approach used in draft ED*)
 - Reproduce some or all of IFRS 13 (*e.g. Include 25 definitions*)
- Not included: Terms for categories of assets/liabilities:
 - For example, no definition for “provisions”, “inventories,” “social benefit” and “non-cash-generating asset”
 - *Working assumption:* Category definitions are in other IPSASs

1. ED sections: Objective, Scope & Definitions

IPSASB asked to approve ED sections:

- a) Objective
- b) Scope

Draft Objective (Revised)

- The objective of this [draft] Standard is to provide high level guidance on measurement bases and how to apply these in order to reflect fairly the cost of services, operational capacity, and financial capacity of an entity.

Scope (Revised)

- An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in measuring items.

2. ED sections: Initial Measurement & Transaction Costs

- Aim: Approve ED sections
- See [agenda paper 6.3.5](#)—ED XX, *Measurement*:
 - Measurement on initial recognition: paragraphs 4-6
 - Transaction costs: paragraphs 7-8
 - Borrowing costs: paragraph 9 (*Discussed under Topic 4*)
- Discussion of issues in [agenda paper 6.2.2](#)

2. ED sections: Measurement on Initial Recognition

- 4 Assets shall be measured on initial recognition at the cost incurred on their acquisition, except where:
 - a. Deemed cost shall be used, as set out in paragraph 5 below, because:
 - i. Information on the assets' cost of acquisition is not available; or
 - ii. The assets are acquired at below market terms or in exchange for other non-financial assets.
 - b. Another IPSAS requires that they be measured at fair value.
- 5 The deemed cost shall be the asset's replacement cost except where another IPSAS requires that deemed cost be fair value.

2. ED sections: Transaction Costs

7. Transaction costs shall be included in the initial measurement of an asset except where assets are measured initially at fair value.
8. The treatment of transaction costs for assets measured at fair value shall conform to the requirements for fair value measurement in IFRS 13, *Fair Value Measurement*.

2. ED sections: Transaction Costs

See [agenda item 6.2.2](#) for discussion of transaction costs:

- Include transaction costs because:
 - CF states that transaction costs are included in entry values
 - Entry value for assets at acquisition date (public sector assets generally acquired for use rather than sale or transfer)
- Fair value measurement – apply IFRS 13 requirements

2. ED sections: Initial Measurement and Transaction Costs

IPSASB asked to approve ED sections:

a) Transaction costs

3. Consultation Paper (CP) Chapters 1 & 2

- Aim: Approve CP chapters:
 - Chapter 1, Introduction
 - Chapter 2, Conceptual Framework and Measurement
- Chapters 1 & 2 are in [agenda paper 6.3.3](#)
- No significant discussion in Issues Paper (Topic 3 is in [agenda paper 6.2.3](#), and has CP outline headings)

3. CP Chapters 1 & 2

- CP is new approach—wrap around for ED
- Each chapter's content broadly follows CP outline (approved by IPSASB in December 2017)
- Chapter 1 has extra coverage, due to Task Force comments

3. CP Chapter 1

- Chapter 1 includes additional coverage on:
 - The purpose of measurement in public sector financial statements
 - Importance of service potential: Why public sector measurement has different measurement bases from those used for cash-generating assets
- CP outline had “Scope of CP”: This has been renamed as “focus” & included in “Focus and Structure of CP” section

3. CP Chapter 1: Sections for Review

- Purpose of Measurement in PS Financial Statements
 - Service Delivery Objective and Public Sector Assets and Liabilities
 - Measurement of Assets and Liabilities for Financial Reporting by PS Entities
- Background to the CP
- Measurement issues to address
 - Consistency with Conceptual Framework
 - IFRS 13
 - Clarity of requirements in IPSASs
- Focus and Structure of this CP

3. CP Chapter 2: Sections for Review

- Selection of measurement bases
- Factors to consider when selecting a measurement basis
- Application of measurement bases – issues arising in practice

3. CP Chapters 1 & 2

IPSASB asked to approve:

- a) Chapter 1, *Introduction*; and
- b) Chapter 2, *Conceptual Framework and Measurement*

4. CP Chapter 3, Borrowing Costs

- Aim to approve:
 - Chapter 3, Borrowing Costs; and
 - Preliminary view on treatment of borrowing costs
- Chapter 3 is in [agenda paper 6.3.3](#)
- Issues paper (see [agenda paper 6.2.4](#)) notes that transaction costs “Basis for Conclusions” in Chapter 3 (to reflect IPSASB discussion and decision at this meeting)

4. CP Chapter 3, Borrowing Costs

- Chapter 3 provides basis for preliminary view (PV)
- The PV would revise IPSAS 5, *Borrowing Costs*
- IPSAS 5 requires expensing of borrowing costs, except for:
 - Borrowing costs for a qualifying asset in period between acquisition/construction and active use
 - IPSAS 5 gives option to either expense or capitalize
- The PV propose to remove option to capitalize, i.e. expense all borrowing costs

4. CP Chapter 3, Borrowing Costs

- Previous IPSASB project on borrowing costs: 2007 to 2009
- Chapter 3:
 - Relies on previous project for (a) description of public sector borrowing & (b) identification of four options
 - Reflects more recent developments:
 - Approval of Conceptual Framework (2014)
 - Approval of IPSASB policy to reduce differences with GFS (2013)
 - Insufficient support for previous project's preferred options (2009)

4. CP Chapter 3, Borrowing Costs

Borrowing costs — <i>acquisition, construction or production of qualifying asset:</i>	Option 1	Option 2	Option 3	Option 4
Directly attributable ► and specifically incurred	Expense or capitalize	Must capitalize	Expense or capitalize	Expense
Directly attributable ► but not specifically incurred	Expense or capitalize	Must capitalize	Expense	Expense
Borrowing costs — <i>other</i>	Expense	Expense	Expense	Expense

4. CP Chapter 3, Borrowing Costs

- Option 1 is status quo (IPSAS 5). Entity can choose whether to expense or capitalize specified borrowing costs
- Option 2 requires capitalization of borrowing costs
- Option 3 allows choice to expense or capitalize, but choice applies to smaller subset (costs “specifically incurred”)
- Option 4 requires expensing of all costs (no option, no exception)

4. CP Chapter 3, Borrowing Costs

- Chapter 3's reasons to support Option 4:
 - Other options reduce comparability and may reduce representational faithfulness of asset values:
 - Allowance of options reduces comparability
 - Requirement to capitalize leads to allocation of centralized borrowing costs to assets when no relationship to inform the allocation (reduced representational faithfulness)
 - Benefits of capitalization not established, while costs apply

Preliminary View—Chapter 3

All borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs related to a qualifying asset and incurred during the period between acquisition/construction and active use.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

4. Decisions required

The IPSASB is asked to approve

- a) Chapter 3, *Borrowing Costs*; and
- b) The preliminary view on treatment of borrowing costs.