



Agenda Item 12: Public Sector Measurement

David Watkins and Gwenda Jensen

IPSASB Meeting

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Toronto, Canada

Overview

Introduction

1. Flow chart – subsequent measurement of assets
2. Exposure draft (ED) - subsequent measurement
3. Fair value in the ED
4. (a) Equivalence table, and (b) Revisions to CP & ED
5. Education session: Measurement of liabilities

Introduction

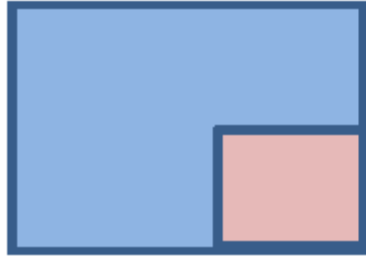
- Project management:
 - Instructions (agenda paper 12.1.1)
 - Decisions (agenda paper 12.1.2)
 - Project road map (agenda paper 12.1.3)

September 2017: IPSASB considered four options

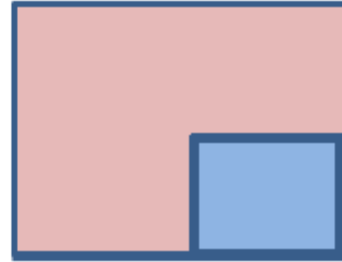
A. IPSAS



B. IPSAS (IFRS)



C. IFRS (IPSAS)



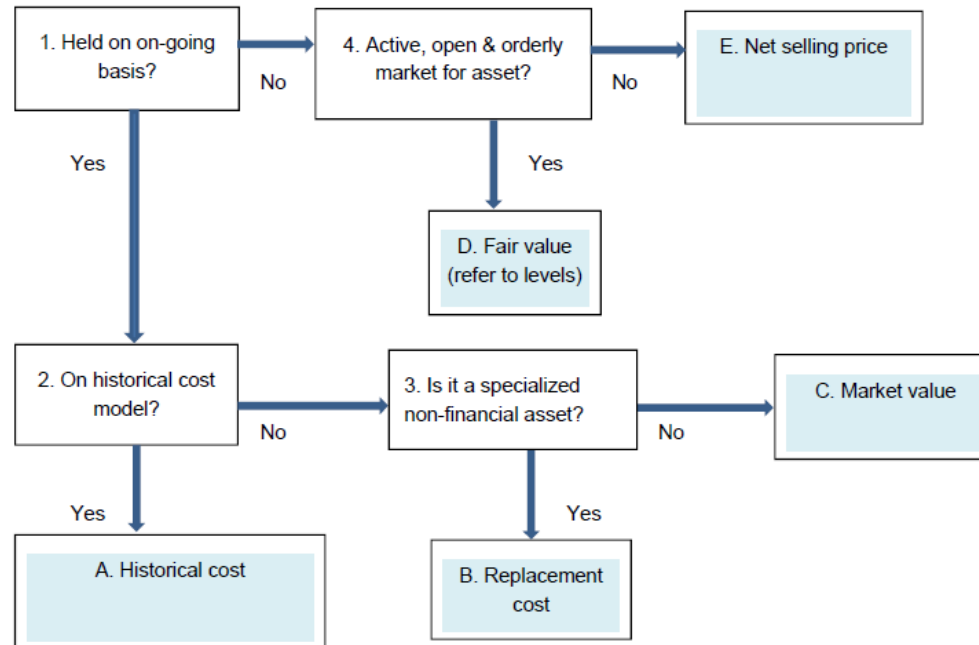
D. IFRS



1. Flow chart – Subsequent Measurement of Assets

- What are the IPSASB's views on the flow chart for subsequent measurement of assets?
- See agenda item 12.2.1

1. Flow chart – Subsequent Measurement of Assets



1. Flow chart – Subsequent Measurement of Assets

- Work-in-progress
- Focuses on non-financial assets and aims to address most of their measurement needs
- Reflects:
 - Conceptual Framework approach to measurement; and
 - IPSASB support for use of fair value in some circumstances

1. Apply Flow Chart to IPSASs / Assets

1. Inventories (IPSAS 12)
2. Property, Plant and Equipment (PP&E) (IPSAS 17)
3. Intangible Assets (IPSAS 31)
4. Biological assets and agricultural produce (IPSAS 27)

1. Inventories' Subsequent Measurement

- Flow chart: Inventories are not held on on-going basis:
 - If market is active, open and orderly then use **fair value**
 - Otherwise use **net selling price**
- IPSAS 12: Inventories
 - At **cost**
 - If below cost, use **current replacement cost** or **net realizable value**
 - Consider consequential amendments

1. PP&E: Subsequent Measurement

- Flow chart: PP&E is held on on-going basis:
 - Historical cost model: Use **historical cost**
 - Revaluation model: Use **replacement cost (RC)**, if specialized, and otherwise **market value (MV)**
- IPSAS 17: PP&E
 - If cost model use **historical cost**
 - If revaluation model, use **fair value** (derivation includes **RC & MV**)
 - Consider consequential amendments

1. Intangible Assets: Subsequent Measurement

- Flow chart: Intangibles are held on on-going basis:
 - Historical cost model: Use **historical cost**
 - Revaluation model: Use **replacement cost (RC)**, if specialized, and otherwise **market value (MV)**
- IPSAS 31: Intangible assets
 - If cost model use **historical cost**
 - If revaluation model, use **fair value**; only useable if active market
 - Consider consequential amendments

1. Agriculture: Subsequent Measurement

- Flow chart: Agricultural produce & biological assets arguably not held on on-going basis:
 - If market is active, open and orderly then use **fair value**
 - Otherwise use **net selling price**
- IPSAS 27: Agricultural product & biological assets
 - At **fair value less costs to sell** (**historical cost** if fair value cannot be measured reliably)
 - Consider consequential amendments

1. Flow Chart: Decision Required

- Note that Task Force plans to do further work on:
 - The flow chart; and
 - Related text in ED XX, *Measurement*
- For the September IPSASB meeting

2. ED Text: Subsequent Measurement - Assets

- What are IPSASB's views on the draft ED text for subsequent measurement of assets?
- See agenda paper 12.3.1—ED XX, *Measurement*

2. ED Text: Subsequent Measurement - Assets

- Applies flow chart (in Topic 1)
- Refers to other IPSASs for depreciation, amortization and impairment
- Applies previous directions from IPSASB and Chairs:
 - Keep concise
 - Articulate measurement principles
 - Address public sector issues
 - Address historical cost model and revaluation

2. ED Text: Subsequent Measurement - Assets

Decision required:

- Approve the broad direction of ED's section "Subsequent Measurement–Assets," and
- Identify revisions to bring back in September

3. Fair Value in the ED

- What are the IPSASB's views on ED XX's coverage of fair value measurement?
 - Extent of coverage (high level or detailed approach)
 - Location within ED XX
 - Revisions to text from IFRS 13, *Fair Value Measurement*

3. Fair Value in the ED

Previous IPSASB directions:

- Fair value should have same meaning as in IFRS 13, *Fair Value Measurement*
- ED XX should:
 - Reproduce IFRS 13 content to establish meaning of fair value; and
 - Include IFRS 13 definitions and other necessary IFRS 13 material

3. Fair Value in the ED: Extent of Coverage

- ED XX has most of IFRS 13's coverage
 - Applies working assumption that same coverage needed as deemed necessary by IASB
- This **detailed coverage** is different in style from the rest of ED XX, which takes a **high level, principles-based approach**.

3. Fair value in the ED: Location of Coverage

- For this discussion ED's fair value coverage is in a separate section
- Other locations to consider:
 - a) Distribute coverage throughout ED, under appropriate headings (e.g. all fair value disclosures in the "Disclosure"
 - b) Place some detail in an appendix to either IPSAS, *Measurement*, or another IPSAS

3. Fair value in the ED: Revisions to IFRS 13 text for inclusion in ED XX

- Agenda paper 12.2.3 describes:
 - Revisions already made to the underlying IFRS 13 (see paragraph 6) prior to including it in ED-XX; and
 - Further revisions that have been proposed (see paragraph 7)

3. Decisions required: IPSASB asked to:

- Agree that ED XX provide **high level, principles-based** coverage of fair value measurement. Detail in an appendix to either:
 - ED XX, *Measurement*, or
 - Another IPSAS
- Agree with revisions already made to IFRS 13 text; and
- Provide views on further revisions to the IFRS 13 text

4. (a) Equivalence Table: Question for IPSASB

- What are the IPSASB's views on the equivalence table?

(See agenda paper [12.3.2](#) for equivalence table)

4. (a) Equivalence Table

- Comprehensive coverage of IPSAS measurement-related terms, including IFRS 13 definitions incorporated into ED XX
- Government finance statistics (GFS) and International Valuation Standards (IVS):
 - Equivalents for terms where available
 - Coverage that covers a broadly similar idea or a reference to the accounting term where equivalents not available

4. (a) Equivalence Table

- Non-authoritative, since includes material from third party sources (GFS and IVS), which are outside the IPSASB's control
- Recommend that table be posted as resource on the IPSASB website (and not incorporated into the ED or CP)
- Work ongoing on refining the equivalence table

4. (a) Equivalence Table: Decision required

- Note the on-going development of the equivalence table as non-authoritative material

4. (b) Revisions to CP & ED since March 2018

- IPSASB asked to note revisions to the CP and ED since March
- Revisions are shown in agenda paper 12.3.1:
 - CP chapters 1 and 2: Revisions as directed in March
 - CP Chapter 3, *Borrowing Costs*: Inter-meeting review revisions
 - ED sections:
 - Objective, Scope: Revisions since March
 - Defined Terms, Initial Measurement, Transaction and Borrowing Costs: Revisions show IPSASB March decisions & Chairs' subsequent decisions

4. (b) Revisions to CP & ED Since March 2018

Decision required:

- Note revisions to the CP and ED

5. Education Session: Measurement of Liabilities

Aim of session:

- Discuss subsequent measurement of liabilities (supported by information on individual IPSASs as examples)
- Identify issues for development of ED sections on subsequent measurement of liabilities (for approval at IPSASB's September 2018 meeting)

Education Session Overview

1. Review approach-December 2017
2. Conceptual Framework: Chapter 7, *Measurement*, on liabilities
3. Examples to discuss:
 - IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*
 - IPSAS 39, *Employee Benefits*

1. Review approach—December 2017

- Apply rebuttable presumption that IPSAS measurement will need revision for consistency with Conceptual Framework (CF)
 - Revisions necessary if IPSAS measurement only broadly consistent with CF measurement basis
- Where IPSAS has revaluation model:
 - Determine whether exit or entry value
 - Where IPSAS refers to fair value:
 - If entry value, IFRS 13 definition inappropriate
 - If exit value, apply IFRS 13 fair value definition
 - Consider whether value should be entity-specific or not

Conceptual Framework (CF): Chapter 7, *Measurement,*

- Guidance to select measurement bases:
 - The objective of measurement
 - Measurement bases for liabilities (with classification)
- Discussion of each measurement basis (objective of measurement, qualitative characteristics and constraints)

CF - The Objective of Measurement:

To select measurement bases that most fairly reflect entity's

- cost of services,
- operational capacity and
- financial capacity

in a manner that is useful in holding the entity to account, and for decision-making purposes

CF-2. Measurement Bases

Assets		Liabilities
Historical cost		Historical cost
<i>Current value:</i>		<i>Current value:</i>
Market value		Market value
Replacement cost	▶	Assumption price
Net selling price	▶	Cost of release
Value in use		Cost of fulfillment

CF-2. Measurement Bases for Liabilities

Historical cost: Consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred

Market value: Amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction

CF-2. Measurement Bases for Liabilities

Assumption price: Amount which the entity would rationally be willing to accept in exchange for assuming an existing liability

Cost of release: Amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor

Cost of fulfillment: Costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner

CF - Measurement Bases Classification

Measurement Basis (Liabilities)	Entry or Exit	Observable?	Entity Specific?
Historical cost	Entry	Generally, yes	Yes
Market value in open, active and orderly market	Entry and 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

5. Education Session: Measurement of Liabilities

- ED XX: Liabilities shall be measured on initial recognition at:
 - Consideration received to assume the obligations at the time the liabilities are incurred,Except where another IPSAS requires measurement at:
 - Cost of fulfillment; or
 - Fair value
- *Cost of fulfillment*: Costs that entity will incur in fulfilling the obligations assuming that it does so in the least costly manner

5. Measurement of Liabilities: Provisions

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*:

- Provisions measured at “the best estimate of the expenditure required to settle the present obligation at the **reporting date**”
- “Best estimate” applies to both initial and subsequent measurement
- Subsequent measurement:
 - Adjust for changes to the best estimate
 - Present value adjustments (if effect of time value of money is material)
- IPSAS 19 does not refer to CF’s measurement bases

5. Measurement of Liabilities: Employee benefits

IPSAS 39, *Employee Benefits*:

- *Short-term*
- *Long-term*:
 - Post-employment Benefits—Defined Contribution Plans
 - Post-employment Benefits—Defined Benefit Plans
 - Other Long-Term Employee Benefits
- *Termination benefits*

5. Measurement of Liabilities: Employee benefits

IPSAS 39, *Employee Benefits*:

- *Short-term*: Measure at the undiscounted amount of short-term employee benefits expected to be paid (after deducting any amount already paid)

5. Measurement of Liabilities: Employee benefits

IPSAS 39: *Long-term*: Post-employment Benefits

- *Defined Contribution Plans*:
 - **Contribution payable** in exchange for service during the period, after deducting any amount already paid. (Generally on undiscounted basis.)
- *Defined Benefit Plans*: Determine plan's deficit (surplus):
 - Make **estimate of cost** using projected unit credit method
 - **Discount** to determine **present value**
 - **Deduct fair value of plan assets** from present value of obligation
 - (If an asset, adjust for effect of limiting to the asset ceiling)

5. Liability measurement: IPSAS 39 *Employee benefits*

- *Other Long-Term Employee Benefits* – Same measurement approach as that used for liabilities arising from a defined benefit plan
- *Termination benefits* – Classify in terms of other employee benefits and then apply the applicable approach, i.e. apply measurement for:
 - Short-term benefits if short-term benefit
 - Other long-term benefits if settlement expected after 12 months
 - Post-employment benefits if enhancements to post-employment benefit

5. Measurement of Liabilities: Employee benefits

IPSAS 39, *Employee Benefits*:

- Note that each approach applies to both initial and subsequent measurement
- Subsequent measurement:
 - Any value changes arise from re-application of the same approach
 - Present value adjustments (if approach involves discounting to a present value)
- IPSAS 39 does not refer to CF's measurement bases

5. Measurement of Liabilities: Questions to consider

- Should subsequent measurement be same as liabilities' initial measurement?
- If yes, which ED XX measurement basis should apply subsequently? (Consideration received to assume liability, cost of fulfillment or fair value?)
- If no, what other Conceptual Framework measurement bases should apply instead?
- Other issues to consider when reviewing liability measurement in IPSAS?

5. Measurement of Liabilities: Factors to Consider

- Financial or non-financial?
- Short-term or long-term?
- Involves future cash flows or future provision of services?
- Public sector specifics (e.g. social benefits) or basically the same or similar to private sector situations? (IFRS alignment)
- Any issues arising from GFS reporting guidelines? (Reduction of unnecessary differences between IPSAS and GFS reporting guidelines)

5. Education Session: Measurement of Liabilities

For Information—no decision

This topic is provided as an information and discussion session